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KEYNES AND THE LSE ECONOMISTS

BY

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This paper discusses the changing attitudes to and relations with John Maynard Keynes of some of the ''interwar generation'' of economists, such as Arnold Plant, Lionel Robbins, Friedrich Hayek, John Hicks, Nicholas Kaldor, Evan Durbin, and Abba Lerner. It focuses on their encounters with Keynes and their reactions to his changing views (but not on his reaction to their work). One theme, therefore, is his role as hero to ''traitor'' to hero again, at least for some of these London School of Economics (LSE) economists. But there is another theme: that is the spell of Hayek, which I believe ''inoculated'' them from the influence of Keynes for a while in the early 1930s—but only for a while.

I have chosen to begin this paper in 1920, and to end with Keynes's death in 1946. As the historian of the School has commented, at that time ''a number of those arrived at LSE who were to determine more than others the character and appearance of the School for decades to come,'' including Robbins and Plant as first-year undergraduates (Dahrendorf 1995, p. 144). All the economists I have chosen to include were students during the interwar years. I have, therefore, not included William Beveridge, who became director of LSE in 1919.[2] Hicks arrived at LSE in 1926 as a junior member of the academic staff. He had initially read mathematics at Balliol College, Oxford, switching after a year to the new degree in Philosophy Politics & Economics (PPE), and spent a postgraduate year at Oxford before moving to LSE. He stayed at LSE until 1935, when he left for a lectureship at Cambridge. Kaldor arrived from Hungary in 1927 as an undergraduate, became a graduate student (with Robbins as his supervisor) after graduating in 1930 and a junior member of the staff in 1932; he remained on the staff until 1947. He then went to work at the European Commission of the United Nations Organization, before he was offered a lectureship (and a fellowship at King's College) in Cambridge where he had been living since LSE

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[2]The LSE economists also came to regard him as not one of their number (see below).

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was evacuated there in 1939. Lerner was also an undergraduate (1929-32), graduate student (Hayek was his supervisor), and junior member of staff (1935-40) at LSE, at first for one year and then on a regular four-year appointment as assistant lecturer from 1936. Hayek, on the other hand, first appeared at LSE to give four public lectures in January-February 1931, returned as a visiting professor in October 1931, and was appointed a year later to a permanent professorship, which he resigned in 1950. Plant after graduation left LSE for a job at the University of Cape Town in 1924; he returned to LSE as professor of commerce in 1930. Robbins was at LSE the longest—in one way and another he was there from 1920 till 1982—first appointed to the staff in 1925 and Professor of Economics from 1929 to 1962, but he was away in 1924-5 and 1927-9 (at New College Oxford) and during the Second World War. Durbin was a student of Robbins's at New College; he joined the LSE staff in 1930 after a postgraduate year at University College London. (He became a politician and joined the first postwar Labour government in 1947, but he drowned in 1948.) Robbins also had the most complex and eventually the closest relations with Keynes.[3]

I start with Plant and Robbins because one knows what they thought of Keynes at that time: Keynes was the man who had resigned his Treasury position over the Treaty of Versailles and written *The Economic Consequences of the Peace* in 1919. Plant and Robbins had both served in the British Army in the First World War (Plant as a private in the Royal West Kent Regiment in 1918; Robbins as a second lieutenant in the Royal Artillery 1916-19). "As a disillusioned ex-soldier," Robbins wrote later, "I well remember reading it [*The Economic Consequences of the Peace*] with its marvellous peroration. 'Never in the lifetime of men now living has the universal element in the soul of man burnt so dimly. For these reasons the true voice of the new generation has not yet spoken and silent opinion is not yet formed. To the formation of the general opinion of the future I dedicate this book.' That, I thought, was spiritual leadership which I could follow: and many thousands of people all over the world felt as I did."[4] In 1937 Keynes was to Robbins (1937b, p. 321) "despite all the damage he has done to liberal policies in recent years . . . still the man who wrote the *Economic Consequences of the Peace*, one of the most magnificent gestures in defence of the great principles of peace and international justice of this or any other age."[5]

Plant and Robbins got their first chance to see and hear Keynes while they were undergraduates at LSE. In their first year Keynes gave four public lectures on "The social effects of a fluctuating standard" in February and March 1921.[6] The published

[3]There is another economist in the background, namely Dennis Robertson. He was a friend of several of the LSE economists and a major influence on their work, especially Hicks, Robbins, and Durbin. He was also an LSE economist in that he was the Cassel professor of money and banking for five and a half years, from 1939 until he succeeded Pigou as professor of political economy at Cambridge in 1944; he had already lectured at LSE in 1929 for a term following the sudden death of the newly appointed professor of political economy, Allyn Young, and again in 1930-1 while his predecessor in the Cassel professorship, Theodore Gregory, was away on a research professorship at Manchester.

[4]Keynes as a political economist (notes for a lecture given in Buenos Aires in April 1981), Robbins Papers.

[5]Hayek (1995, p. 58) has pointed out that Keynes was also 'something of a hero to us Central Europeans' in the 1920s because of *The Economic Consequences of the Peace*.

[6]Plant kept detailed notes of the lectures ("J.M. Keynes, 4 lectures on 'The Social Effects of a Fluctuating Standard,' Feb-March 1921," Plant Papers 34, BLPES); the Robbins Papers also have ms notes entitled "The social effects of a fluctuating standard."

version of the lectures, "The consequences to society of changes in the value of money," appeared in the Manchester Guardian Commercial Reconstruction Supplement a year later and in Keynes's *Tract on Monetary Reform* in 1923. Robbins, who graduated with a BSc(Econ) in 1923 and spent some of the following year working as research assistant to the director of LSE (William Beveridge) on the revision of his book *Unemployment* (1909), read the *Tract* soon after it was published, volunteering to explain it to his fiancée since "its really just simple as free trade and quite as interesting." A few weeks later he attended a conference on unemployment where he heard Keynes, Henderson, Cannan, and Gregory argue over the role of monetary factors in the trade cycle.[7] The *Tract* was one of the books Robbins recommended to students in his first lectures at LSE on Currency Banking and International Trade in 1925-6. He was not convinced, then or later, by Keynes's or others' arguments in favor of floating exchange rates and always preferred fixed exchange rates. At the same time he was like Keynes very critical of the UK return to gold at the prewar parity in April 1925.[8]

I should briefly go back to Hugh Dalton and Edwin Cannan, who taught Plant and Robbins economics—Dalton in the first year, Cannan in the second and third years of the three-year BSc(Econ) degree. (Gregory taught them currency and banking.) Dalton, who later became much better known as a senior Labour politician, was a Cambridge-trained economist. He had read economics at King's College Cambridge in 1906-10, worked as a research student at LSE before the war (when he too served as an artillery officer, in his case on the Italian front) and published his major book on *The Inequality of Incomes* in 1920. Dalton was essentially a Marshallian economist, much concerned with the economics of welfare a la Pigou.[9] Cannan, the Oxford-trained Professor of Political Economy, was notoriously critical of Marshall. His lectures discussed the origins of the concepts of economic theory, especially the work of the English classical economists, but since his references to Marshall were almost as frequent as those to Adam Smith and John Stuart Mill, the students had to know Marshall's *Principles* (the 8th edition of 1920) very well in order to understand Cannan's criticisms.[10] Robbins's first published article was on Marshall's concept of the representative firm—which Keynes accepted for the *Economic Journal* in 1928 as "a very interesting piece of work, which much wanted doing, and [with which] I am in sympathy. . .. I [too] should like to do away with the representative firm altogether" (Robbins 1997, p. 8). When Robbins had himself been teaching economic theory for ten years, he concluded a talk to the Association of University Teachers of Economics on the difficulties of teaching economic theory in 1934 with "a plea for not throwing baby out with bath here. Many things in Marshall [I] would put differently. But still incomparably best general introduction to *all* problems." In his reading list for his Principles of Economic Analysis course he starred three books as "indispensable" for

[7]Letters from Robbins to Iris Gardiner, 17 January and 1 April 1924.

[8]The notes for these lectures are in the Robbins Papers. Robbins was one of those critics who thought it would have been better to have returned to gold earlier at a lower parity.

[9]Plant kept detailed notes of the lectures: "Elements of Economics Prof [sic] Dalton," Plant Papers 153, BLPES; there are also notes of some of the lectures in the Robbins Papers.

[10]After his retirement in 1926 Cannan published his lectures as *A Review of Economic Theory* (1929).

passing the final examination, namely Marshall's *Principles*, Pigou's *Economics of Welfare,* and Cannan's *Review of Economic Theory*—in that order.[11]

Keynes's personal relationships with LSE economists in the 1920s (and in the 1930s for that matter) were through the London and Cambridge Economic Service: Keynes and Dennis Robertson represented Cambridge on its executive committee, and both served on its editorial committee, which Robbins joined in 1929 (Moggridge 1993, pp. 383–4). It is probably there that Robbins first met Keynes and it is at a meeting of economic research services in London in 1928 (when Robbins was in Oxford) that Hayek, who had been director of the Austrian Institut für Konjunkturforschung since 1927, had first met Keynes (Hayek 1994, p. 89).[12] Hayek (1995, p. 59) later wrote of this meeting: "we at once had our first theoretical clash—on some issue of the effectiveness of changes in the rate of interest. Though in such debates Keynes would at first try ruthlessly to steam-roller an objection in a manner somewhat intimidating to a younger man, if one stood up to him on such occasions he would develop a most friendly interest even if he strongly disagreed with one's views."

By this time (i.e. 1929-30) Robbins was a young professor at LSE and it was in that capacity that Keynes asked him to serve on a committee appointed by the Labour Prime Minister, James Ramsay MacDonald, in 1930 "to review the present economic conditions of Great Britain, to examine the causes which are responsible for it and to indicate the conditions of recovery." For his "Committee of Economists" Keynes had suggested as members Sir Josiah Stamp and Hubert Henderson who were like himself members of the government's Economic Advisory Council, Henry Clay of the University of Manchester who was currently working for the Bank of England, and Pigou, Robbins, and Robertson as "leading academic economists"; he recommended them to the Prime Minister because they "all . . . are well accustomed to the most up-to-date academic methods . . . are essentially reasonable and good members of a committee, and happen to have given already a good deal of time and thought to the problem which would be set them" (Howson and Winch 1977, pp. 46–7).[13]

The "time and thought" Robbins had given to the problem included a great deal of reading of the work of German-speaking economists, including Gottfried Haberler, Hayek, Ludwig von Mises, and Wilhelm Röpke, and Knut Wicksell's work in German. He had been reading Mises since 1923 or 1924: first *Die Gemeinwirtschaft* (1922), whose critique of socialism impressed him so much that he began to translate it for publication; his *Nation, Staat und Wirtschaft* (1912) for a course of lectures Robbins gave on the economics of war at LSE in 1926-7; and *Theorie des Geldes und der Umlaufsmittel* (2nd edition, 1924) for his currency and banking lectures. More recently he had been reading the work of Mises's student Hayek, including *Geldtheorie und Konjunkturtheorie* (1929) and "Gibt es einen 'Widersinn des Sparens'?" (also 1929) in the new Viennese journal *Zeitschrift für Nationökonomie*

[11]Notes for his talk in Robbins Papers and LSE Calendars for 1931/2-1934/5.

[12]The program for the conference on 26-29 June 1928 is in LSE 241A, BLPES. On that visit Robertson had shown Hayek around Trinity College, Cambridge, where they ran into Ludwig Wittgenstein, Hayek's cousin (Hayek 1992, p. 178).

[13]Clay and Robertson did not in fact serve on the committee.

(where he had also been reading Haberler and Bertil Ohlin on the transfer problem).[14]

As David Laidler has commented (1999, p. 50), in 1930 Austrian business cycle theory was "a novel and potentially revolutionary doctrine whose policy implications challenged . . . conventional wisdom, but because that challenge was based on what seemed to be a coherent body of theory, it attracted much attention and not a little support." Wicksell, who had distinguished between the money or market rate of interest charged by banks on their loans and the "natural" rate of interest at which the demand for bank loans equals the supply of savings, argued that prices will rise if the market interest rate is below the natural rate and rise continuously as long as the market rate is below the natural rate. The neo-Wicksellians, including Mises, Hayek, and Röpke, developed this into a monetary over-investment theory of business cycles. The boom is brought about by a discrepancy between the natural and money rates of interest, with the banks' interest rates below the natural rate, so that the demand for credit exceeds the supply of savings. The resulting (over)investment in capital and hence the boom, which is accompanied by rising prices or at least prices higher than they otherwise would have been, will come to an inevitable end once consumers, whose desire for consumers' goods has not fallen, find they cannot afford to buy the desired level of consumers' goods at current prices; they have in effect been forced to save more than they desired. Although this process of "forced saving" can continue while the banks continue to lend, ". . . sooner or later . . . it becomes clear that the newly initiated extensions of the structure of production cannot be completed, and the work on the new but incompleted roundabout processes must be discontinued. The investment boom collapses and a large part of the invested capital is lost," when the banks become unwilling and unable to lend more. Any attempt to prolong the boom "artificially" would only lead to accelerating inflation (Haberler 1937, pp. 33–48).[15]

Robbins's clash with Keynes in his Committee of Economists began over macroeconomic theory; it came to a head over a different issue. When Keynes produced a short questionnaire after the first couple of meetings, in preparation for a weekend meeting on 26-28 September, Robbins responded with two memoranda, one of which he admitted to be "lengthy and verbose." He had been reading the proofs of Keynes's *Treatise on Money*, which Keynes had lent the members of the committee: although he had not finished reading them, the difference between the diagnoses of the slump implied by the Keynesian and the Hayekian versions of the Wicksellian analysis was readily apparent. "Now, if I understand Mr. Keynes correctly, his view is that in recent years in the world at large the money rate [of interest] has been above the natural rate [of interest] largely because of the financial operations of needy and nervous governments," except in the

[14]There are reading notes on Mises in Robbins's Method etc Early flounderings 1923— notebook, and on Hayek's work in Capital & Interest and Cyclical Fluctuations Theories notebooks in the Robbins Papers. In the note on further reading in his first book (1926) Robbins states his translation of part of *Die Gemeinwirtschaft* will be published "in the near future." He later persuaded his friend Jacques Kahane to translate the whole book (Mises 1936). When the School started a series of translations of major foreign works in 1931 the first two to be published were Mises (1934) and Wicksell (1934-5). By this time Hayek's work had appeared in English translated by Nicholas Kaldor (Hayek 1931 and 1933).

[15]As Haberler (1937, p. 57) noted, "The theory of the depression [was] not nearly so fully elaborated by the authors of the monetary over-investment school as the theory of the boom." This defect was not so obvious in 1929-30 as it was to become in the next three or four years of worldwide depression.

USA before 1928. Since 1928 financial speculation had driven money rates above the natural rate until the Wall Street crash: on this point the two versions of the Wicksellian analysis did not disagree. But there were all sorts of good reasons why the natural rate of interest in all countries should have been *high* since the war (wartime destruction of capital, postwar inflations, rapid population increases outside the industrialized countries, and a high rate of technical progress in them); thus it could be argued that in the USA in the 1920s there had been a boom due to the money rate of interest being *below* the natural rate. While the Keynesian view suggested an expansionary monetary policy could produce recovery by increasing investment, the alternative hypothesis implied there had been too much investment before the slump: "there is a 'real' disproportionality in the disposition of factors of production [between producers' goods and consumer goods]; recovery is no longer a mere question of readjustment and returning to prosperity at the old level." Attempts to speed up recovery by lowering money rates of interest could at best only prolong the "boom" and at worst deepen the inevitable depression. Moreover, the UK unemployment position since the war had been aggravated by insufficiently flexible money wages and a lack of labor mobility between declining and (potentially) expanding industries, due mainly to restrictive practices on the part of both groups of employers and trade unions and to a lesser extent to the unemployment insurance scheme. Given his view of the position in Britain before the slump, Robbins could

> see no hope of a solution [to the UK unemployment problem] save in the introduction of greater flexibility into the wage structure and the sweeping away of the great mass of obsolete restrictions which prevent labour from being sufficiently productive to earn the wages it demands. The other remedies which have been propounded [lower interest rates, public works, a tariff] seem to me to be likely to have long period effects much worse than the disease.

The worst possible remedy was a tariff. Robbins had reason to suspect before the Committee of Economists met that Keynes might be wavering in his support for free trade as he had been a guest at the April 1930 meeting of the Tuesday Club (the private dining club of which Keynes was a founder member) at which Keynes opened the discussion on "Are the presuppositions of free trade satisfied today?" Robbins counterattacked with Keynes's own earlier arguments against protection in the *Nation and Athenaeum* in 1923. He also responded to Keynes's new argument that a tariff would make it easier for Britain to maintain its overseas lending, which was a necessary outlet for the savings of an old country with relatively few opportunities for large-scale domestic investment, especially at a time when UK interest rates had to be high to keep the pound sterling on the gold standard: if UK savings exceeded investment unemployment would ensue. If the balance of trade, and hence the surplus available for foreign lending, could not be improved by lowering the price of exports because of wage rigidity, then a tariff could do it by reducing imports. Robbins pointed out that Keynes's argument required wages to be completely inflexible, assumed an empirically unverified low elasticity of demand for UK exports, and exaggerated the difficulties of the transfer problem.[16]

[16]EAC(E)13, Answers by Professor L. Robbins to Questionnaire prepared by the Chairman (Committee Paper EAC(E)8), Memorandum II, 23 September 1930, Robbins Papers 1/3, BLPES. Robbins referred to articles on "Transfer und Preisbewegung" in the *Zeitschrift für Nationalökonomie* 1 (January 1930).

At the first weekend meeting of the committee Keynes produced another paper, "A proposal for tariffs plus bounties," in which he advocated a general tariff of say 10 per cent on all imports and an equivalent subsidy to exports. This should have similar effects to a devaluation of the pound (ruled out while Britain remained on the gold standard) and was fairer than an attempt to reduce domestic money wages.[17] Despite the opposition this generated, not only from Robbins, the meeting ended with agreement that Keynes should prepare a draft report and they should meet again in ten days' time. But when Robbins saw the (incomplete) draft at those next meetings, on 7 and 8 October 1930, he made it clear that he would not sign a report with which he did not agree. Keynes challenged Robbins's right to produce a minority report with only one signature. Meanwhile the others agreed that Pigou and Henderson should redraft parts of Keynes's draft and that Robbins should prepare "a draft statement setting out the matters on which he was in disagreement with the Chairman's Draft," which would be considered at a second weekend meeting in Cambridge.[18]

Before the Cambridge meeting (18-19 October) Keynes had decided that a large part of Robbins's statement could be incorporated in the Committee's report, so that the first substantive section of the final report, "The causes of the present depression," is essentially Robbins's, and so, redrafted by Henderson, is a section on "Ways of restoring elasticity to the economic structure of Great Britain." Most of the Cambridge weekend's discussions on were devoted to trying to redraft the rest of the draft report to accommodate Henderson's and Pigou's objections to Keynes's views: Henderson opposed public works undertaken only for employment purposes (as did Robbins) but he was prepared to support the tariff proposal as a temporary expedient; Pigou was not prepared to recommend a tariff even as a short-run expedient. Nonetheless, on Sunday "At the conclusion of the discussion on Tariffs, PROFESSOR ROBBINS indicated that he would probably be unable to sign the Report prepared by his colleagues." Keynes tried again to stop Robbins producing a minority report, but Robbins insisted and walked out of the committee's last meeting.[19]

As Robbins told Cannan a few days later:

> The committee ended in a violent quarrel. Keynes and Stamp insisted on the most absurd Protectionist measures. . . . Pigou a gentleman to the last was content to record his dissent in parentheses. But I wouldn't sign the thing at all, although I had written fully half of it. . . . Keynes cut up very rough about this, attempted to suppress my dissent altogether, then tucked it away behind a statistical appendix, and only consented to publish it as it stands when I had refused to meet him any further save in

[17]EAC(E)15, Memorandum by Mr J.M. Keynes, 21 September 1930, in Keynes (1973, pp. 177–200), and EAC(E)24, A proposal for tariffs plus bounties, Note by the Chairman, 25 September 1930, in Keynes (1981, pp. 416–19). For more on Keynes's use of his *Treatise* analysis and Robbins's reaction see Howson and Winch (1977, pp. 51–63).

[18]EAC(E)25, 27 and 28, and Appendix II to EAC(E)7th meeting, reproduced in Keynes (1981, pp. 423–50); Minutes of 7th meeting of Committee of Economists, 8 October 1930, CAB58/150, National Archives; LCR to Keynes, 8 October 1930, Robbins Papers 1/1, BLPES.

[19]EAC(E) 9th-13th meetings, 16, 18, 19, 22 and 23 October 1930, CAB58/150, National Archives.

> the presence of a witness and had declared point blank that if he altered a word of what I had written I would make a public shindig about the whole thing.[20]

Why the vehemence? Well, Robbins had grown up in a Liberal household; he held the traditional economists' belief in free trade; and, as he admitted in his autobiography (1971, pp. 151–3), there was "a touch of the Nonconformist conscience." Free trade was a matter of principle.[21] Keynes was furious that the young economist was destroying his hope of producing an "agreed diagnosis" for the Prime Minister; but Robbins was not easily intimidated. Henderson, who was charged with making the last attempt to persuade Robbins not to insist on a minority report, told him afterwards: "I was stupid in not realizing until a remark of yours on Wednesday last [22 October] that the tariff issue was the one thing that you regarded as vital. . . . Having regard to that, I don't think your attitude in the C^{ee} was in the least unreasonable; & I sincerely respect you for the fight you put up for it."[22] No doubt Keynes, once his anger had blown over, respected him too. They were soon meeting again on the editorial committee of the London and Cambridge Economic Service "as if there were nothing but intellectual differences between us" (Robbins 1971, p. 152).

Robbins had plenty of allies on the tariff issue. The day after the last meeting of the Committee of Economists Plant and Robbins dined with Beveridge "to talk Tariffs" (as Beveridge put it in his diary). They had just persuaded him out of sympathy with Imperial preference and he proposed they form a committee to prepare and publish a study of the whole tariff issue. They were joined by several LSE colleagues and also by Dennis Robertson. The book (Beveridge et al. 1931), mostly written by Beveridge, though including some separate chapters by Hicks, Plant, and Robbins, was not a good book. Robertson "found ways of disengaging himself gracefully and without fundamental disagreement" (Robbins 1971, p. 158) before the book appeared a year later. It also appeared at an unpropitious time, just after Britain had left the gold standard on 21 September 1931.

* * *

Enter Hayek. On 27 January 1931 the door of Robbins's office at LSE "open[ed] to admit the tall, powerful, reserved figure which announced itself quietly and firmly as 'Hayek'" (Robbins 1971, p. 127). He had been invited in the spring of 1930 to give four public lectures in the University of London Advanced Lectures in Economics series during the 1930-1 academic year; for the following year Robbins invited Keynes (who declined because he was too busy). Hayek liked to claim that Robbins, "an almost unique . . . English professor who could read German literature . . . pounced on my subject: This is the thing we need at the moment, to fight Keynes" (Hayek 1994, p. 77). But Hayek had

[20]Robbins to Cannan, 5 November 1930, Cannan Papers 1030, BLPES. The committee's report is reproduced in Howson and Winch (1977, pp. 180–243); the report by Professor L. Robbins is on pp. 227–31 *before* the statistical appendix.

[21]Roy Harrod (1951, p. 427) put it well: "He [Robbins] was a convinced Free Trader, and his ardent, youthful spirit rose up in passionate protest against any proposals of this kind. In his mind far more was at stake than the mere question of whether a little extra employment could be given here and now by means of import duties. . . . He saw in the proposals a turning away from the ancient traditions which had made Britain great, and a devastating blow at the all-too-tender plant of internationalism."

[22]Henderson to Robbins, 28 October 1930, Robbins Papers 1/1, BLPES.

in fact received and accepted his invitation from Beveridge before Robbins had his row with Keynes. Hayek *himself*, however, was very keen to fight Keynes, whose *Treatise on Money* had by now been published. He heard Keynes's (1931a) radio broadcast on the problem of unemployment shortly before he traveled to England. He preceded his visit to London with one to Cambridge, where he stayed with Dennis Robertson at Trinity and gave a lecture to the Marshall Society and also attended Keynes's Monday Club the night before he went to London. Richard Kahn, who was present at the Marshall Society meeting, attributes the "breach" between LSE and Cambridge economists to Hayek not to Robbins (Kahn 1984, pp. 180–2).

One of the editors of the *Collected Works of F. A. Hayek* has written (Hayek 1995, pp. 20–1): "The youthful Lionel Robbins was battling on a number of fronts and he was looking for allies. To counter the emphasis on history at the LSE, he sought first and foremost a qualified theorist. But he also wanted an economist who was conversant with other traditions, so that the LSE could become a leader in the internationalization of British economics. He finally needed someone who might serve as a counterweight to J. M. Keynes. Friedrich Hayek certainly seemed to fit the bill. Though he could not get permission for Hayek to appear before the Committee of Economists, he was able as department head to invite him to give a series of lectures at LSE. And that is exactly what Robbins did." It is *not* exactly what Robbins did: he suggested to Keynes that the Committee of Economists might talk to "three or four foreign economists" (recommending Viner, Röpke, Ohlin, and Hayek) some months *after* Hayek had received his invitation to lecture at the School (Robbins to Keynes, 31 August 1930, reproduced in Keynes 1981, p. 404).

The invitation had reached Hayek "when I had for the first time a clear picture of this theory but had not yet gone into all the complicated details. If I had progressed in working out an elaborate treatise, I would have encountered any number of complications. . . . Since I was not yet aware of the difficulties, I gave these incredibly successful lectures [on Prices and Production]. . . . I expected nothing less than that four lectures I gave in London would lead to an invitation. Of course in the first instance it only produced an invitation for a visiting professorship for one year. But I fitted in so well, and Robbins and I became very close friends, we worked beautifully together, and from 1931 till 1940 we were thinking together and working together. Then I'm afraid he fell under Keynes's influence" (Hayek 1994, pp. 77–8).[23]

When Keynes made his tariff proposals public in the *New Statesman and Nation* on 7 March 1931 and Robbins responded to them a week later,[24] Hayek told Robbins

[23]Robbins thought that "for profound theoretical insight and power to open up totally new horizons, I know only one work of its kind which has been published in English since the war with which they [the lectures] can be compared—Mr. Dennis Robertson's *Banking Policy and the Price Level* [1926]. English-speaking readers will know that one could give no higher praise" (Foreword to Hayek (1931c, p. xi)).

[24]Robbins replied to Keynes at the request of the editor of the *New Statesman*, Kingsley Martin, who later pointed out to Robbins: "The tenor of the talk on Maynard [Keynes] at that time was that as an economist he was betraying his professional duty in abandoning the sacred principle of free trade for political reasons. I am not sure whether you remember as well as I do the fury with which you stated this thesis in conversation. I remember that on one occasion you said that Maynard was, after all, not as young as he used to be; perhaps, then, he should be forgiven on that account. Maynard, on the other hand, told me after one argument with you, that he really thought you were slightly off your head!" (Martin to Robbins, 27 January 1953, New Statesman Papers 16/R, University of Sussex).

he wished he could help him in that battle but it was perhaps better he confined himself to the 'monetary hereticisms' by getting on with his review for *Economica* of the *Treatise on Money*, which Robbins had suggested while he was in London. That review (Hayek 1931b and 1932) was extremely critical, but, as is very well known Keynes (1931b) responded to the first part by claiming Hayek had misunderstood him and by attacking Hayek's just published *Prices and Production* as "one of the most frightful muddles I have ever read, with scarcely a sound proposition in it beginning with page 45. . . ." After the second part appeared he told Hayek he was unlikely to reply to it as he was now trying "to re-shape and improve my central position, and that is probably a better way to spend one's time than in controversy."[25] Hayek commenced his own "treatise," which was intended to cover monetary, capital, and cycle theory, but, largely as a result of the difficulties of capital theory, he published only part of the planned book as *The Pure Theory of Capital* and that only in 1941.

Robbins continued to speak and write against all forms of protection at home and abroad for the rest of the decade (e.g. Robbins 1931a, 1931b, 1932a, 1934b, 1934c, 1936a, 1936b, 1937, and 1939). He also became engaged again in the controversy over domestic economic policy measures. He agreed, for instance, to join another Economic Advisory Council committee on the limits of economy policy in February 1932. The report of this committee strongly supported the continuation of the government's cuts in public expenditure at the depth of the depression (Howson and Winch 1977, pp. 124–5). At the same time Hayek, Plant, and Robbins advised Beveridge on his Halley-Stewart lecture, in which he said: "It [the crisis] has come about through a fall of prices initiated from the side of money, a deflationary fall of prices [which] has produced unexampled paralysis . . . because it has met with unexampled rigidities of the economic system. Though the deflation of purchasing power and consequent fall of prices may be described as the cause of the crisis, the deflation itself is probably an inevitable sequel of a previous inflation. . . . If th[is] view . . . is right, . . . then there is not much that anyone can do now to help us; what is wanted ought to have been done five years ago" (Salter et al. 1932, pp. 175–87). Robbins contributed (in favor of saving) to a debate on "Spend or save?" in the *Spectator* in July-August 1932. And in October 1932 Hayek, Gregory, Plant, and Robbins famously responded to a letter in *The Times* which had been drafted by Pigou and signed also by Keynes and others stating the economic case for increased private and public spending in current conditions (Macgregor et al. 1932). The LSE men claimed it was a not "a matter of indifference" whether money was spent on consumption or investment. "We, on the contrary, believe that one of the main deficiencies of the world to-day is a deficiency of investment," so that it was undesirable to discourage people from buying securities (and hence making money potentially available for investment). Increased public spending was even less desirable: borrowing for municipal swimming baths etc. would mortgage the budgets of the future and tend to drive up interest rates, crowding out private investment (Gregory et al. 1932). Years later Robbins (1971, pp. 152–6) was still proud of having stood up to Keynes over tariffs but he thought he had definitely been wrong in

[25]Keynes to Hayek, 29 March 1932, reproduced in Hayek (1995).

opposing him on public works and advocating deflationary measures during the slump, especially in the EAC committee and the letter to the *Times*.

As Dalton (1986, p. 165) commented after Lionel and his wife had visited the Daltons at their house in Wiltshire in January 1932:

> His intellectual development is a disappointment. He will do much distinguished work in economic theory. But he has stiffened in an old-fashioned *laissez-faire* attitude of approach to current problems. He is bemused by modern Viennese theory, & by the personality of Hayek, in particular. . . . He over-cultivates his feud with Keynes. He thinks he is working out a diagnosis of our ills in the form of a monetary bacillus. He is exercising a powerful influence—for he has a forceful intellectual personality and much charm—on younger teachers and on students. He is still young enough to grow & change, but *this* phase is negative & rather tiresome. I foresee the possibility of intellectual friction at the School.

Before turning to the 'Keynesian revolution' wrought by Keynes's *General Theory of Employment, Interest and Money* (1936), I consider the younger LSE economists. Kaldor had just graduated when Hayek appeared on the scene; Lerner was still an undergraduate. But Kaldor began to translate Hayek's 'Paradox of saving' article in 1930-1 and agreed with Hayek to translate *Geldtheorie and Konjunkturtheorie* (Hayek 1931a and 1933): he later (1986, p. 7n) claimed that his "enthusiasm for the doctrines of Professor von Hayek . . . suffered a relapse when as a first year research student I undertook to translate his article . . . into English, and in the course of struggling with the translation detected various gaps and flaws in the argument." (But, as Hansjörg Klausinger [2008] has noted, "If at the time he ever had doubts about the integrity of Hayek's theories . . . these had left no trace in his published record.") Lerner became one of Hayek's first doctoral students in 1932. Hicks was still a labour economist, "mainly occupied, during 1931, with finishing *Theory of Wages*, which had begun as applied Pigou (with a dash of Walras), but then got overlaid in its final stages with a coating of Hayek. For 1931 was the advent of Hayek at L.S.E. . . ." (Hicks 1973, p. 3). But, at Robbins's instigation, he had been lecturing on risk and profits in 1929–30 and again in 1931-2 and on general equilibrium in 1930-1. Kaldor was one of the graduate students attending the latter, where, according to the LSE Calendar, Hicks introduced "the Equilibrium analysis the Lausanne school [and] compared [it] with the methods of Marshall." Hicks and Kaldor became close friends, living near each other in London and going on holidays together (Thirlwall 1987, pp. 24–5).[26]

Hicks's lectures on risk had first borne fruit in a paper on uncertainty and profit (Hicks 1931). After he finished his *Wages* book in mid-1932 he returned to the subject. According to his own recollections, one of the papers he wrote reminded a colleague who taught money and banking of Keynes's *Treatise*, so Hicks began to read that carefully. When the paper was published in 1933 he sent a copy to Keynes (whom he had not yet met). A year later, when he sent him a copy of another paper, "A suggestion for simplifying the theory of money," which develops some of the ideas in the *Treatise*, Hicks received a postcard: "'Many thanks for the proof of your

[26]It is also at this point that Hicks became friends with Robertson, after they ran into each other on holiday in Vienna (Hicks 1973, p. 3).

article [Hicks 1935]. I like it very much. I agree with you that that what I now call ''Liquidity Preference'' is the essential concept for Monetary Theory.' That was the first time I had heard of Liquidity Preference'' (Hicks 1973, p. 7).[27] Hicks had, however, also been influenced by the Swedish economists: he had read and reviewed Gunnar Myrdal's work on monetary equilibrium in German in 1934, and he had learned more from Erik Lindahl when he visited LSE in 1934 and 1935 (Hicks 1973, p. 8). When the *General Theory* was published in February 1936, Hicks had been a lecturer in Cambridge for one term and he was asked to write the review for the *Economic Journal* (Hicks 1936).

Most of the work of the younger economists at LSE (faculty and graduate students) in the early 1930s focused on microeconomics: witness the topics of the famous Robbins seminar and the publications that came out of it.[28] Some examples are the Hicks-Allen reconsideration of demand theory (1934), Kaldor's papers on the determinateness of equilibrium and imperfect competition (1934 and 1935), and a long series of papers by Lerner beginning with that on monopoly (1934). Evan Durbin was an exception: since 1929/30 when he had been a research student at University College London he had been working on underconsumption theories of the trade cycle and he lectured on that topic at LSE. After he finished his book, *Purchasing Power and Trade Depression* (1933) in late 1932, he expanded his course to include the current controversy between Keynes and Hayek in the *Treatise on Money* and *Prices and Production* (which he had also discussed in his book: he was critical of both).[29]

But some of the other young economists began to be curious about what was happening to macroeconomics in Cambridge. Lorie Tarshis remembered a dinner at Bertorelli's restaurant of himself and Robert Bryce (both Canadian students at Cambridge) with Paul Sweezy (a PhD student at Harvard but he spent 1932/3 at LSE), his brother Alan (who was visiting from Vienna), and Abba Lerner, and a discussion afterwards: ''Bob and I were representing Keynes and the rest of the cutthroats were representing Hayek. Well, we didn't get far, because Paul . . . had had too much to drink . . .'' (Colander and Landreth 1996, p. 58).

Paul Sweezy remembered the more fruitful discussions:

> Keynesian ideas were floating around at both Cambridge and London at the time, although the conversion of any significant amount of London people—Lerner and Kaldor and some others—came, I think, after I left.
>
> Having heard about these Keynesian ideas we sent a delegation of LSE graduate students to find out about them. Our group included Abba Lerner, Ursula Webb, who later married John Hicks, Aaron Emanuel and Ralph Arakie, who was very prominent

[27]On reading a draft of this paper Robertson had been surprised, and amused, to find that the ''New Secret is nothing less than the application of the general theory of value to money! For that, surely, is exactly what the 'Cambridge approach' has always been!'' (Robertson to Hicks, 18 December 1934, Robertson Papers C4/1, Wren Library, Trinity College, Cambridge).

[28]The topics for the Seminars in the years 1931/2, 1932/3, 1933/4, 1934/5 and 1935/6 were, respectively, capital theory, collectivist economics, value theory, imperfect competition, and international trade theory (information from Howson 2005).

[29]He thanked both Robbins and Hayek for reading and criticizing the manuscript although he had been unable to accept all their suggestions; his debt to the written work of Robertson, Keynes, and Hayek was ''too obvious to need any special acknowledgment'' (Durbin 1933, p. 12).

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> at the time but who committed suicide later. Thinking back, we were a good group. We started *The Review of Economic Studies*, for example. We went up to Cambridge and sat down and had tea with a Cambridge group. The Cambridge group included Joan Robinson and Richard Kahn, and we were introduced to the ideas in *The General Theory* there (Colander and Landreth 1996, p. 79).[30]

Joan Robinson (1978, p. xv) recalled that "A delegation led by Abba Lerner . . . came to Cambridge to suggest that the young generation on each side should get together and settle the debate among themselves. The *Review of Economic Studies* was founded as a forum for discussion . . . and a weekend meeting was arranged at an inn half-way between London and Cambridge." Cambridge was represented by Kahn, Austin and Joan Robinson, and James Meade; London by Lerner and three others.

> At the first session, James explained the multiplier; Kahn, who came later, went over it again. Then it was the turn of London. . . .
>
> . . . Next day, Abba asked to go over the multiplier argument. With some help, he repeated it correctly and seemed to be convinced. His companions were quite shocked and were seen afterwards walking him up and down the lawn, trying to restore his faith.

Lerner himself recalled that they had gone to Cambridge to solicit articles for their journal.

> We were taken charge of by Joan Robinson. We began with a few polite words about her book, *Imperfect Competition.* . . . Then we turned to the topic which was really interesting us. We had heard that some very strange things were happening in Cambridge. We couldn't quite make out what it was, something about the elasticity of demand for output as a whole, and we knew that was nonsense, because we were brought up properly on Marshall, and we knew all about elasticity and demand curves. . . . Well, Joan Robinson started explaining it to us, but we didn't understand her and, symbolically, we arranged to have a weekend meeting at a place called Bishop's Stortford, halfway between London and Cambridge (Colander and Landreth 1996, pp. 88–9).

The weekend meeting took place in August 1933 (at Newport rather than Bishop's Stortford according to Kahn [1984], page 183); and the first issue of the *Review of Economic Studies* came out in October 1933, with contributions from both Cambridge (Kahn and Joan Robinson) and London (Hicks, Lerner, and Sweezy). Lerner then spent six months in Cambridge in 1934-5, when he became a Keynesian, later (1934, p. viii) thanking Joan and Richard "for the great pains they took in getting me to overcome my prejudices against Mr Keynes's great advancement of economic understanding."[31] Kaldor's conversion came a year later, when he went to

[30]Arakie (1937) acknowledges the influence of Hicks and through Hicks, Myrdal as well as Hayek on his own work.

[31]The first issue of *REStuds* also contained the first paper of George Shackle, then still a schoolteacher: encouraged by the founders of the journal he applied for a research studentship at LSE and began his PhD there in January 1935, at first working on Austrian capital theory under Hayek's supervision; he changed his thesis topic after hearing Robinson and Kahn lecturing in Cambridge on Keynes's work (Ford 1994, pp. 4–6; Shackle, ms notes London School of Economics Centenary, Shackle Papers 9/13/49, Cambridge University Library).

the United States on a Rockefeller Travelling Fellowship in 1935/6 and there read the *General Theory* just after it was published. He came back to the School a Keynesian. His acrimonious debates with Hayek in LSE seminars are remembered by many participants. He also began to publish on Keynesian macroeconomic topics.[32]

When the *General Theory* was published in February 1936 Keynes sent copies to some 80 professional economists including Hayek and Robbins. When they thanked him, they both said they would read it soon. Robbins said he would read it in the Easter vacation. Hayek told Keynes on 2 February that he had started reading it but had not got very far.

> I have immediately started reading it, but as you will expect, have not yet got very far. I fully agree about the importance of the problem which you outline at the beginning [i.e. the determination of the actual level of employment], but I cannot agree that it has always been as completely neglected as you suggest.
> I have also glanced at the central later sections of whose main argument I had some idea from the expositions of Bryce and Mrs Robinson. I am still puzzled by the treatment of the saving-investment relationship, of liquidity preference and some other points. But probably all that will be cleared up when I have worked through the whole systematically. But if my present doubts remain I shall probably ask your hospitality for some notes on particular points in the *E.J.* [of which Keynes was editor].[33]

Two weeks later, however, he admitted to Gottfried Haberler that he was "hopelessly stuck" in chapter 6 (The definition of income, saving and investment).

A month later Hayek wrote to Haberler again, telling him he was going to Austria next week and Robbins was leaving tomorrow for a long lecturing and skiing trip to Finland and Scandinavia. The next day an article by Haberler on the multiplier arrived for *Economica*. Robbins on the point of departure handed it to Hayek who returned it to Haberler as there were "difficulties" with *Economica*. The editors had asked Pigou to review the *General Theory*, his review had come in and was very critical, and in these circumstances they wanted to avoid anything that could give the impression of a planned campaign against Keynes. He himself had for that reason determined to submit a note to the *Economic Journal* which Keynes could not very well refuse. He recommended Haberler to send his note to the *EJ* too. "I hope you will really understand our difficulties" he went on, "The chance exists just now to isolate Keynes and to bring to a stand a common front of other Cambridge and London

[32]For instance Kaldor (1938, 1939, and 1940). Kaldor (1986, p. 7) attributed his swift conversion indirectly to Hicks, who had introduced him to Myrdal's work. On his emancipation from Hayekian views see especially Klausinger (2008).

[33]Robbins to Keynes, 6 February 1936, Keynes Papers EJ/1_3, King's College Cambridge; Hayek to Keynes, 2 February 1936, reproduced in Keynes (1979, pp. 207–8). Bryce had given an evangelical presentation of Keynes's ideas to Hayek's graduate seminar at LSE in the spring of 1935. Hayek had generously allowed the discussion to last over four weeks. Bryce also told Keynes: "I might add that their chief difficulties were with the definitions of income and investment, with the concept of the propensity to spend, and with the way in which equilibrium would establish itself again after, say, an increase in the quantity of money. On the whole, however, they seemed able to understand it and were quite interested" (Bryce to Keynes, 3 July 1935, and Bryce, "An introduction to a monetary theory of employment," Keynes 1979, pp. 131–50). Robinson's article, "A parable of savings and investment," had been published in *Economica* (1933).

[economists]. These possibilities we would not jeopardize by putting *Economica* in the forefront of the attack. Pigou's article will cause enough sensation."[34]

Hayek did not in fact submit a note or article on the *General Theory* to the *EJ*. He decided instead to get on with his own book, which I have already mentioned. He did, however, comment to Haberler when he had finished reading the *General Theory*. He was "awfully annoyed," especially because "through his formulation he discredits many important ideas, which now lie in the air, among many people, and it will make it hard to try to persuade them without tackling all the other nonsense."[35]

Robbins's trip took up almost all of the Easter vacation. I do not know whether he found the time to read the *General Theory* then nor what he thought of it when he did. In the summer term he was, like Hayek, concentrating a book of his own (Robbins 1937). In his teaching in the next three years (1936/7 to 1938/9) his Principles of Economic Analysis lectures concentrated on microeconomics, and although he included Hicks's 1937 article, "Mr. Keynes and the Classics," at the end of his Principles reading list for 1938-9, he left macroeconomics to Hayek and their younger colleagues, especially Durbin and Kaldor. Durbin's first reaction to the *General Theory* had been rather different from Hayek's—in spite of the fact that his recently published second book, *The Problem of Credit Policy*, had used Hayekian analysis. In April 1936 he told Keynes "how very much" he had enjoyed it: "I have read almost nothing else since it came out and I have immensely enjoyed my labours. I find myself in profound disagreement with the political notes in the last chapter ['Concluding notes on the social philosophy towards which the general theory might lead'] and I do not understand which monetary policy you are advocating for the cure of the trade cycle—but the main argument of the book has been most stimulating to me."[36]

The Keynesian impact on LSE economists can be seen in the reading lists for their lecture courses. When Hayek, in his year as a visiting professor, was giving lectures on currency and banking in Gregory's absence he included Keynes's *Treatise on Money* (after the monetary works of Wicksell, Mises, Hawtrey, Cannan, and Robertson in that order). Thereafter his reading lists for courses on Capital and Interest and Industrial Fluctuations (one course in 1932-3 split into two in subsequent years) contained plenty of his own works but none of Keynes's. Evan Durbin's course has already been mentioned. The *General Theory* first appears in the reading list for that course, now entitled The Modern Purchasing Power Controversy, in 1936-7 and in a short course for graduate students by Kaldor, Problems of the theory of economic dynamics, in the same year (also in a course on the theory of index numbers given by Lerner). Durbin continued to cover Hayek's work in the next two years; Kaldor did not even mention it.[37]

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[34]Hayek to Haberler, 15 February, 14 and 15 March 1936, translated by and quoted in Howson (2001, pp. 371–2).

[35]Hayek to Haberler, 3 May 1936, translated by and quoted in Howson (2001, p. 372). Haberler sent his note to Keynes, who admitted the awkward position he was in as editor, and Haberler published it in the *Zeitschrift für Nationalökonomie* instead (Keynes 1979, pp. 248–54; Haberler 1936).

[36]Keynes (1979, p. 231). For more on Durbin's views in 1935–6 see Elizabeth Durbin (1985 chapter 7).

[37]LSE Calendars for 1930/1 to 1938/9. The lectures on macroeconomics included a few on the Swedish economists by Brinley Thomas, who had been studying in Germany and Sweden, in 1935 and 1936. The "Austrian" economist Ludwig Lachmann is said to have lamented: "When I came up to the LSE in the early 1930s [in 1933], everybody was a Hayekian; at the end of the decade there were only two of us: Hayek and myself" (Hayek 1995, p. 36).

It can, I think, be reasonably claimed that the IS-LM (interest rate vs. national income) diagram was invented by an LSE economist (Hicks) even though Hicks was in Cambridge when he gave the paper containing it at an Econometric Society meeting at Oxford in September 1936 (Hicks 1937). He never had much intellectual contact with his Cambridge contemporaries while he was there, perhaps because Joan Robinson had been a candidate for his lectureship (it is entirely possible that Pigou and Robertson suggested he apply in order to keep Joan out), leaving in 1938 for a chair at Manchester, where he and Ursula spent the war years (Hamouda 1993, pp. 19–20).

It is *not* true that Hicks went to Cambridge "due to Beveridge's hostility to theorists and his refusal to renew Hicks's contract" (McCormick 1992, p. 167). Beveridge in fact recommended to the LSE governors in February 1935, when Hicks had just been invited to apply for the Cambridge lectureship, that Hicks should be promoted to reader if he decided to stay in London (Agenda for 14 February 1935 meeting of Emergency Committee, LSE MINUTES 6/12, BLPES). It *is* true that Beveridge was unsympathetic to theoretical and mathematical developments in economics and hence to the work of the young LSE economists. He was particularly reluctant to recommend the appointment of Lerner in 1936 and did so only because "the Professor of Economics [Robbins] had pressed for the appointment very strongly" (Minutes of Emergency Committee meeting on 30 April 1936, LSE MINUTES 6/13, BLPES). In 1938 Lerner went to the USA on a Rockefeller Travelling Fellowship. He was still there when war broke out and the director, now Alexander Carr-Saunders, advised him not to try to return to England.

* * *

In October 1939 LSE moved to Cambridge for the duration of war. This brought Hayek, Kaldor, and Robbins closer to Keynes, but in very different ways. Before I explain, let me mention first their reaction to Keynes's *How to Pay for the War* (1940). Keynes first put forward his proposal for 'compulsory savings' or 'deferred pay' in a lecture to the Marshall Society on 20 October (a Friday) and made it more public in articles in *The Times* on 13 and 15 November (Keynes 1978, pp. 40–51). Kaldor heard the lecture, Hayek and Robbins probably did not. Robbins and his family were living in a cottage in Buckinghamshire, Hayek and his family were still in London, and they were in Cambridge for only three or four days each week (Robbins 1971, p. 166; Hayek 1994, p. 97). Kaldor (1986, p. 13) recalled that the immediate impact on him of the move to Cambridge was he "took a much closer interest in current issues of economic policy—primarily stimulated by listening to the lectures on war finance given by Keynes and to the discussions they gave rise to—I remember particularly the long debates with one of my earliest pupils, Erwin Rothbarth, then Keynes' assistant in collecting the material for Keynes' pamphlet."[38] He subsequently fell out completely with Hayek (i.e. personally as well as professionally) in 1942.[39]

[38]Rothbarth had been one of the first refugee students from Germany to receive a bursary to study at LSE from the School's Academic Assistance Fund set up by Beveridge and Robbins in 1933.

[39]The resulting acrimonious correspondence is in the Kaldor Papers and in the Carr-Saunders Papers.

Hayek publicly came out in favor of Keynes's proposal in an article in *The Spectator* on 24 November, also suggesting that the money to repay the compulsory savings after the war could be found from a levy on capital. Keynes included this suggestion in his revised proposals which were published on 27 February 1940. By that time there was, as Keynes told the editor of *The Times*, "Amongst academic economists . . . almost universal agreement on principle, though some differences on points of detail. This embraces the school of economists from whom I have frequently differed of late; in particular Hayek, who has gone so far as to suggest getting up a circular of support; D.H. Robertson and, I think, Robbins" (Keynes 1978, pp. 91–6, 102). Hayek had told Keynes: "I find myself in practically complete agreement in so far as policy during the war is concerned. It is reassuring to know that we agree so completely on the economics of scarcity, even if we differ on when it applies." He offered to sign a circular letter in support of Keynes's proposals in order to demonstrate the unanimity of economists. When Keynes did not see such a letter in *The Times* he asked the editor what had happened. Robbins then explained: "The blame rests with me not with the *Times*. I drafted two or three letters & showed them to friends. But they all seemed just a little wrong so I put them on one side. The difficulty is that I agree with so completely on this issue that anything extensive serves only to repeat in muted & mediocre terms what you yourself had said so admirably—while anything brief—I agree with Mr Keynes—seems to attach an importance to ones own utterances which is not warranted by the facts." He added a postscript: ". . . it has been one of the few cheering things about the war that I have found myself in the position of agreement with you. You know that in the past it has always been a matter of intense personal regret that I was not always able to support your plans."[40]

After the fall of France in May 1940 Robbins was offered a job in government service and thereafter lived in London during the week. (Durbin and Plant were also in government service throughout the war; Robertson was there from the beginning, in the Treasury.) Hayek and Kaldor remained in Cambridge to maintain, with their few LSE and Cambridge colleagues, the teaching of economics to both LSE and Cambridge students. Hayek's wife and children joined the Robbins family at their cottage, as it was difficult to find accommodation in Cambridge. Keynes arranged for Hayek to have rooms in King's College and for him to dine at High Table. They thus saw each other frequently from then until the end of the war. "The evenings at the High Table and the Combination Room at King's are among the pleasantest recollections of my life . . ." (Hayek 1994, pp. 97–8).

Robbins worked in what became the Economic Section of the War Cabinet Offices and headed it from September 1941, with James Meade as his deputy. Meade, an Oxford PPE graduate, had been a Keynesian ever since his first postgraduate year (1930/1), which he spent in Cambridge (and became a member of the "Cambridge circus" with Richard Kahn, the Robinsons, and Piero Sraffa which argued out Keynes's *Treatise*): if anyone can be said to have converted Robbins to Keynesian ideas, it is Meade (see below). Keynes became an unofficial adviser to the Chancellor

[40]Keynes (1978, pp. 106–7); Keynes to Geoffrey Dawson, 21 March, and Robbins to Keynes, 29 March 1940, Keynes Papers HP/6, Kings College Cambridge.

of the Exchequer with (from August 1940) a room in the Treasury. Meade had been recruited by Austin Robinson in order to prepare reliable estimates of national income and expenditure, which would be needed to implement Keynes's ideas on how to pay for the war. The Chancellor and his officials were reluctant to let Meade and Richard Stone (also recruited by Austin Robinson to work on the national income estimates) have the data they needed; Robbins enlisted Keynes's help in persuading the Permanent Secretary of the Treasury to support the national income project. By early December 1940 Meade and Stone had a first draft of their national income estimates, which Keynes submitted to the Treasury's budget committee early in the new year. They were published in the white paper, *An Analysis of the Sources of War Finance and an Estimate of the National Income and Expenditure in 1938 and 1940*, which accompanied the first "Keynesian" budget of April 1941.[41] Robbins also successfully sought Keynes's assistance when he and his colleagues began to consider the limitation of consumption by points rationing in the winter of 1940-1 (Booth 1985).

Meade wrote the first of a long series of memoranda on employment policy in February 1941. His proposals for postwar employment policy included measures for influencing consumption expenditure countercyclically. Robbins was enthusiastic (more than Keynes was) about Meade's scheme for varying the rate of social security contributions as a means of stabilizing the demand for labor, and encouraged Meade to submit it to the Beveridge Committee on Social Insurance and Allied Services. However, intervention by Keynes and the Permanent Secretary of the Treasury, worried by the financial implications of Beveridge's proposals, meant that Meade's scheme did not appear in the Beveridge Report in 1942 but as an appendix to the white paper on *Employment Policy* in 1944 (Meade 1988, pp. 171–83, 184–92; Keynes 1980b, pp. 206ff). In 1943, when Meade wrote the first draft of what eventually became the 1944 white paper, it was Robbins who championed it. Indeed he rewrote it deliberately in order to make it more persuasive outside the Economic Section. Evan Durbin, who was now personal assistant to the Deputy Prime Minister (the leader of the Labour Party Clement Attlee), commended the result to Attlee: not only was it "beautifully written" but "it bears out my contention, with which I fear I may have wearied you in the past, that economists are now able to agree on interesting and important propositions. The Economic Section contains economists of almost every persuasion, from extreme faith in capitalism to membership of the Fabian Society and the Labour Party. Yet they have been able to produce an agreed document of great interest."[42]

The Treasury took a very different and hostile view of the document. In the ensuing ministerial disputes, it was the minister responsible for the Economic Section, Sir John Anderson, briefed by Robbins, who suggested that a small committee of half a dozen very senior civil servants to thrash out the issues. Robbins represented the Section (Dalton 1986, p. 617; Tomlinson 1987, pp. 50–7; Cairncross

[41]On these developments see Howson (2000, pp. 122–8); Cairncross and Watts (1989, pp. 28, 35–6); Keynes (1978, pp. 195–6 and 325–8); Robbins to Keynes, 19 November, and Keynes to Robbins, 20 November 1940, T230/118, National Archives.

[42]Meade (1988, pp. 199–232); Durbin to Deputy Prime Minister, Maintenance of employment PR(43)26, 24.5.43, Piercy Papers 8/24, BLPES.

and Watts 1989, pp. 77–81). The report of the Steering Committee on Postwar Employment may have been "a masterpiece of compromise" (Addison 1975, p. 243) but to Keynes it was "an outstanding State Paper which . . . represents a revolution in official opinion." There was a note of dissent from Robbins, with which Keynes this time was "in strong agreement": in attacking the Board of Trade's unduly charitable attitude to restrictive agreements Robbins "speaks . . . and most effectively . . . for the great majority of responsible economists in the whole of the Anglo-Saxon world." What Robbins had had to compromise most was over the budgetary aspects of employment policy, so that the report was less supportive of deficit financing than he had argued for. Nonetheless the first three chapters of the report show Robbins's hand (and that of his Section colleague Marcus Fleming who had helped him with the drafting) in the measures advocated to control aggregate demand countercyclically, which included both monetary policy and public investment.[43] In January 1944 Churchill's coalition government agreed to issue a white paper on employment policy (which took several months and the work of several economists, including Dennis Robertson and Marcus Fleming, but not Keynes, Meade, or Robbins).

So what had happened to Robbins's views of Keynesian macroeconomics? His own version of the story (1971, p. 188) was this:

> It would not be true to say that then, or at any subsequent period, I had become a Keynesian in the sense of accepting *au pied de la lettre* all the analytical propositions of the *General Theory*. . . . I found . . . much that was cogent in the arguments of some of their critics—Dennis Robertson for instance. But 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 governments . . . to pay attention to such matters, then indeed that was now my position. I had long realized that my earlier diagnoses of the causes of the Great Depression had missed the mark in not recognizing sufficiently the paramount role played by the catastrophic contraction of incomes brought about by deflation . . . ; and I had been impressed by the disappearance of mass unemployment under the impact of rearmament and war expenditure.

There is some contemporary evidence to support this. He had criticized the draft introduction of the Polish translator of his 1934 book, *The Great Depression*, for assuming that he "held rigidly" to the Austrian view of the causes of all depressions or to its monetary policy prescriptions. That was in December 1936. In the new year, when Keynes was recommending "How to avoid a slump" by not raising interest rates in the boom, Robbins was suggesting "How to mitigate a slump": he did not agree with Keynes that interest rates need not be raised eventually to curb the boom but he did agree with Keynes that the authorities should prepare public investment projects to be undertaken as soon as a slump arrived. In 1939, when he reprinted this paper, he admitted he now took a "slightly more hopeful view" of the economic effects of public expenditure than he had when he had lectured in Scandinavia in

[43]Keynes, "Post-war employment: Note by Lord Keynes on the report of the steering committee," reproduced in Keynes (1980b, pp. 364–72); R(44)6, Report of Committee on Post-War Employment, 10 January 1944, CAB87/70, National Archives.

March 1936.[44] But I think there was something else as well: the development of national income accounting by Meade and Stone in Whitehall in 1940-1. Like the Austrians, for whom opposition to the use of statistical aggregates was a methodological principle, Robbins had been skeptical of the utility of any economic theory running in terms of aggregates. But now there were measurable aggregates that could help in the formulation of policy. In 1944 he wrote:

> Employment Policy. The White Paper is an anonymous paper & I am not prepared to be saddled with responsibility for everything in it. . . . But I wont disclaim sympathy with the main object which is to prevent deflation of the national income. I think I have altered my views to some extent here. You will find what I thought before the war in an essay . . . —How to prevent [sic] the Next Slump—where I urged the timing & planning of Gvt Capital Expenditure & the utilization of the Unemployment Fund as an antideflationary cushion. The difference between my views now & then is not one of kind but one of degree. I would take more risks. I dont think one can watch during two wars the immense gain in wealth (& labour mobility) which comes from the elimination of deflationary drags & the maintenance of a brisk level of aggregate demand without feeling that it is worth while taking some risks to secure this goal. I think many of us—certainly I was one—were too scared of the inflationary effect of expanding expenditure in a state of underemployment & consequently we handled with gloves instruments we should have grasped with bare hands. The fact is that while you have unemployment on any large scale (I dont mean anything so ambitious as Beveridge's 3% which I think is pure windowdressing) expanding expenditure is not likely to turn into harmful inflation and if employment is reasonably high (6% unemployment would be nearer my guess of what is possible in a 'free society') every step should be taken by intelligent forecasting and planning the government outlay to guard against a falling away of [aggregate demand].[45]

Robbins's greatest collaboration with Keynes was, however, over *international* postwar economic planning. This is, of course, not surprising given Robbins's consistent preference for fixed (but occasionally adjustable) exchange rates and since Keynes's Clearing Union plan was intended to permit countries to maintain stable exchange rates in the face of short-term balance-of-payments problems (and to allow exchange-rate changes to cope with longer lasting problems) (Keynes 1980a, pp. 33–66). When he first read the plan he told Keynes he was "strongly attracted" by it; when he read the second draft he told Keynes he thought it "a treat to read and a real release of fresh air" and hoped it would get to the Prime Minister. Keynes, who found Robbins's first letter "consoling," was "extremely glad" to receive his second since

[44] Robbins to Adam Heydel, 8 December 1936, Great Depression Box, Robbins Papers; Keynes (1982, pp. 384–95); Robbins (1937a); Robbins (1939, pp. 213n and 218n).

[45] Incomplete draft of a letter to Dr Beesly, Private Letters War Period file, Robbins Papers. Robbins was referring to Beveridge's *Full Employment in a Free Society* which appeared in November 1944. After the war Robbins's views on macroeconomic *theory* were closer to Dennis Robertson's than to Keynes's, but, as Robertson noted, Robbins was to the left of Robertson on employment policy: Robertson to Robbins, 4 August 1947, Letters to and from Economists, April 1946–31.10.47 file, Robbins Papers.

"If the scheme is to have a chance, it will certainly need all the support it can get—not merely support, but enthusiastic support."[46]

Robbins's support for Keynes's plans throughout the years 1941-45 took very practical forms. As well as persuading his boss, the powerful Lord President of the Council Sir John Anderson (who became Chancellor of the Exchequer in 1943), to support them in Cabinet on numerous occasions, he took part in the major Anglo-American discussions in Washington DC in June 1943 and in September–October 1943 and was a UK delegate to the UN Monetary and Financial Conference at Bretton Woods in July 1944, which created the International Monetary Fund and the World Bank. He also joined the team, led by Keynes, which spent a long autumn in Washington in 1945 negotiating the postwar US loan to Britain. In these missions he became personally very close to Keynes (Pressnell 1986; Howson and Moggridge 1990). So when Keynes died, at Easter 1946, Robbins wrote to Lydia Lopokova (Lady Keynes): "Maynard has given his life for the country and kindly values as surely as if he had fallen on the field of battle"; those who had been with him on the missions to North America grieved for the loss of "our wise and gallant captain" and "one of the most remarkable and lovable men of this or any other age."[47]

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[46]Robbins to Keynes, 15 October 1941, T230/37; Robbins to Keynes, 26 November 1941, T246/116; Keynes to Robbins, 15 October 1941, T247/33; Keynes to Robbins, 26 November 1941, T230/37, National Archives. In his first letter Robbins had made it clear that he was definitely opposed to any deflation: while "small local contractions" might sometimes be expedient under an international gold standard, "to urge that, when one is free, one should contract merely to achieve or maintain an arbitrary rate of exchange seems to me the extremity of folly, and I have always said so—both before 1925 and after 1931. If it were not the fact that the deflation of the early twenties was actually advocated by Edwin Cannan, I should have been inclined to say that no professionally competent economist has ever supported such a policy." Having been critical of the 1925 return to gold (above) Robbins had not been against the 1931 departure from gold, though he thought (and argued at the time) that Britain should quickly return once the pound had fallen.

[47]Robbins to Lydia Keynes, LLK/5/229/76, King's College Cambridge, quoted in part by Skidelsky (2000, p. xv).

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