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BOOK REVIEW

THE PRICE OF PEACE: MONEY, DEMOCRACY, AND THE LIFE OF JOHN MAYNARD KEYNES

ZACHARY D. CARTER
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JASON MORGAN*

On June 28 of 1944, John Maynard Keynes wrote Friedrich Hayek a letter. Keynes had read Hayek's *The Road to Serfdom* and was generally impressed with the book. But Keynes took exception to Hayek's failure, in Keynes' view, to point out exactly where to "draw the line" between government control of an economy and entrusting economic activity to free actors in a free market.

"You admit here and there [in *The Road to Serfdom*] that it is a question of where to draw the line," Keynes wrote Hayek.

> You agree that the line has to be drawn somewhere, and that the logical extreme is not possible. But you give us no guidance whatever as to where to draw it. […] But as soon as you admit that the extreme is

* Jason Morgan (jmorgan@reitaku-u.ac.jp) is associate professor at Reitaku University in Kashiwa, Japan.

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> not possible, and that a line has to be drawn, you are, on your own argument, done for, since you are trying to persuade us that so soon as one moves an inch in the planned direction [i.e., in the direction of a planned economy] you are necessarily launched on the slippery path which will lead you in due course over the precipice.

The letter from Keynes to Hayek is quoted on page 347 of senior *HuffPost* reporter Zachary D. Carter's new intellectual biography of John Maynard Keynes, *The Price of Peace*. It is no coincidence that this letter, about where to "draw the line," should come at the heart of a biography of Keynes, because drawing the line between the government and the economy—trying, then failing, then trying again at a higher economic dimension, then failing again, and so on—was the very essence of Keynes's public life. Trying to find the "price of peace," to draw the line between government and money once the gold standard had been abandoned in the face of financial ruin after the Great War, was what made Keynes who he was.

Confronted with the intractable problem of how to get profligate governments, drunk on war, to stick to budgets and refrain from defacing the currency, Keynes proposed a series of solutions which, taken together, would later come to be called "Keynesianism." Keynesianism, in a nutshell, is the politicization of money. Keynes spent his life trying to find some alternative line to the gold standard which had prevailed into the early days of Keynes's public life, some way to let governments say what money is. He never found that line. The story of Keynes's life is therefore the story of the government takeover of currency, making John Maynard Keynes arguably the most important person of the twentieth century. Zachary D. Carter's study of Keynes's life in ideas is a must-read for anyone who wants to understand how Keynes, often reluctantly and inadvertently, made government the most powerful force on the planet, the consequences of which we are still dealing with today.

To say that Carter's study of Keynes is a must-read is not to say that it is perfect. What makes Carter's book so worth reading, in fact, is, in part, the author's blind spots. Carter does try to understand the arguments of Hayek, and of Ludwig von Mises and other Austrians, about money and why it is essential not to let governments tamper with it. (See page 193, for example, pp. 342–50 for Hayek as a punctiliously charitable Keynesian might see him, and pp. 467–68 for a good explication of Hayek's tiff with Milton Friedman over what Carter neatly calls "monetary therapy.") Carter is obviously partial to Keynes, but not a partisan. But Carter's prejudices sometimes also get the better of him, so that readers are occasionally left with stale rehearsals of statist platitudes and condemnations of "neo-liberalism" as the bugbear of the political economy. Carter's characterization of McCarthyism as "a political movement that fused conspiracy theorists with the American corporate elite and neoliberal intellectuals," for instance, takes him, and us, on a very interesting turn through the back pages of history, past National Economic Council founder Merwin K. Hart and Rose Wilder Lane, daughter of *Little House on the Prairie* author Laura Ingalls Wilder. (373–78) It is interesting, and useful, to see how a garden-variety liberal looks at these forgotten corners of economic history, so in that sense *The Price of Peace* is also recommended reading.

But these sidetracks are not the main line. Carter's book opens, as one would expect, with the Great War. The calamity unleashed by scheming politicians and double-dealing diplomats in 1914 wreaked absolute havoc with global trade, precipitating the currency problem that Keynes would be called into government service from a quiet life studying economics at Cambridge. "Free markets," Carter intones, revealing more than he probably intends, "were a luxury that a nation at war could not afford." (37) Keynes's job thus became to figure out how to retool the British Empire to survive the Great War, and the ensuing, harrowing, bankrupt peace, without the "luxury" of free markets and free trade.

During the war, Britain, like all wartime states, was trying to have things both ways. On the one hand, Britain wanted easy credit to keep the war machine running—the easiest method of credit for a state being simply to grant credit to itself and print more money. On the other hand, Britain needed to keep its currency on the level because the British pound was the trading floor of global commerce. "The British could inflate themselves into bankruptcy," Carter rightly laments. (39) "A sustained trade deficit would deplete Great Britain's gold reserves. Once those were gone, the government would be unable to purchase the food, munitions, and raw materials from abroad that it required to prosecute the war." (39) Carter also notes that Britain's blockade of its adversary, Germany, would go on to "claim hundreds of thousands of lives." (39) Britain wanted both free trade and wartime inflation and blockading—obviously contradictory desires. In short, then, because a line had been drawn between governments and a war prosecuted based on that line, governments had been forced to fudge, and later erase, the line between the state and the money. Once the old certainties of the British pound, free trade guaranteed by the British navy, and the world order provided by the British Empire began to vanish, however, the world fell into uncertainty.

Keynes's life was a miniature of this change from certainty to doubt. Keynes had been born into the splendor of the late British Empire, and, as he later recalled, that world had seemed a given. But with riches comes decadence, and Keynes's central involvement with a group of convention-flouting young radicals known collectively as Bloomsbury (earlier, "the Apostles") presaged the dissolution of a world that had been grounded in values which the rising Left viewed with disdain. Carter gives us a vibrant intellectual portrait of Bloomsburians such as Lytton Strachey, Virginia Woolf, E.M. Forster, and other free-spirits, showing how, to paraphrase Bertrand Russell, the Victorian staidness of imperial fixity had given way to Edwardian aloofness from politics. (27) But then came the guns of August. The Great War toppled a civilization which had theretofore seemed permanent, a fixture of the universe more than the latest iteration of a dynastic cycle. The world after August of 1914 was riddled with dizzying uncertainty. People grew willing to surrender freedom to strong central governments where once nations had met one another in business and peace.

The new dispensation of political upheaval meant that a new breed of man would thrive. Keynes was just that sort, who knew how to cut corners and turn a blind eye in order to keep his bank account in the black and growing. To put it bluntly, Keynes made a healthy side profit on the new stochastics of statism. While controlling more and more of the British economy during the war, Keynes was able to turn that control to his own private advantage. Not cricket for a Victorian, but for Edwardians anything went. In a way Carter rightly deems "ethically dubious for a man with access to the most sensitive economic secrets of the British government," Keynes "continued bidding on stocks and commodities throughout the war—a flagrant conflict of interest given the nature of his Treasury work, which required him to make personal decisions affecting the total price and supply of all kinds of commodities." (117) Carter partially absolves Keynes by noting that he did not always turn a profit from decisions he influenced at the government level, but this is hardly proof that Keynes was playing above board. Keynes grew fabulously rich during the war, and remained for most of his life thereafter a very rich man. (117) It is thus odd, or not, depending on how one views Keynes's bona fides, to find Keynes in 1929 co-writing an election pamphlet titled *Can Lloyd George Do It?* What Keynes and many others on the Left wanted George Lloyd to "do" was tame postwar unemployment by borrowing, printing, and spending money. Carter notes that in this tract, Keynes "fundamentally redefined what it meant to be a Liberal. The party of free trade and the gold standard had become the party of massive government investment programs and deficit spending." (171) Keynes wanted politicians to get a grip on government finance, but in the slipstream between governments and economies Keynes had managed to convert uncertainty to cash.

And yet, it would be unfair to portray Keynes as merely a grubber after money. He did, I think, have a highly attuned sense of how the world was changing, and he seemed to understand that much of the change was not for the better. Carter emphasizes Keynes's optimism,[1] but in reality Keynes was also fretful about what his ideas would bring about. Distress over what he may have unleashed by placing money under the purview of government seems to have driven Keynes to near distraction for a time. During the 1920s, in the wake of the Great War, Keynes "was periodically gripped by an obsession with ancient currencies." (187) "The old currency has become an uncontrollable madness," Keynes wrote in November of 1925, after spending several days and nights engrossed in the study of Babylonian money. (187)

Eventually Keynes arrived at a theory which prescinded from the Adam Smith orthodoxy of high liberalism, namely that markets predate governments. In his two-volume *A Treatise on Money* (1930), Keynes argues that money is basically "a political tool." (189) Keynes's studies of ancient coinage had led him to the conclusion

[1] "In the long run, we are all dead," Keynes's famous aphorism, is in fact an expression of Keynes' rather happy-go-lucky style, and not a morose statement of morbid nihilism. "Might as well live for the moment," Keynes seemed to be saying.

that states are the authors of currencies. Gold as the basis of free trade was not a natural fact, but a political decision. As Carter sums up Keynes's findings, "the true source of monetary stability was the public legitimacy of the political authority that happened to *choose* gold as its preferred medium of exchange. Money had no meaning absent political authority." (189) (emphasis in original) Indeed, gold coins themselves were "just a piece of bold vanity," in Keynes's view—what really mattered was that governments kept accounts in ledger books and tax records, essentially converting political authority into money as "unit of account." (188) It seems that Keynes's relief at finding that Babylonians had had a tight hold on currency was at least as much a matter of his own conscience as objective scholarly interest.

But while Keynes's investigations into the nature of early currencies were undoubtedly based in historical fact, what seems inescapable on reflection on Keynes's conclusion is that he has substituted gold currency as a natural fact with government as a natural fact. This is a step too far, the fatal step in the Keynesian worldview. Political scientist James C. Scott's most recent book, *Against the Grain: A Deep History of the Earliest States* (2017), makes the provocative argument that ancient states and empires did not really "rise" and "collapse," as though the states themselves were civilization. Closer to the historical truth, Scott argues, is that the people dominated by those polities were brought under and then freed from the yoke of government taxation as states "rose" and "fell." Which is to say, Keynes was wrong. Currency may very well be entangled with government accounting. I agree with Carter when he agrees with Keynes that "economic history" can be seen "as a fundamentally political story—the tale of riches conquered and surrendered by political powers as empires rose and fell." (189) But what came first, before there were states, were human communities with apparently no notion of—even an abhorrence of—taxation. Just because Babylonians had a monopoly on accounting does not mean that money *must* be political. The genius of Adam Smith and later economists of his stripe was to use currency, government's own creation (let us say, for the sake of argument), to limit the power of government. This was a recognition of an ancient and long-forgotten reality: Even if governments issue fiat currencies, it is not the same as saying the governments can convert fiats into reality.

Keynes did not make this distinction. The rest of the world turned turtle as a result. Keynesianism did not just put currency under the sway of politics, it made central governments (first national, then world) the arbiters of much of human activity. Keynes rebuked Hayek for not drawing a line. Keynes did not draw one, either.

Keynes should have known better than anyone that what governments basically do with taxes is use that stolen money to plunder further, shore up power, and wage war against other governments. Keynes admits as much. As Carter writes, quoting liberally from Keynes:

> The development of the modern economy […] was inextricably linked with the rise of European colonialism. When the Spanish conquistadors began shipping silver from the Americas back to Europe, they had sparked a rapid price inflation, causing prices to quintuple over the following eight decades. "In these golden years," [Keynes] wrote, "modern capitalism was born." […] Though Keynes cheerfully breezed past the implications of his analysis, he had presented a history in which the intricacies of the modern economy were the by-products of intercontinental pillage. […] The idea that modern financial systems were developed to meet the demands of warring states is widely accepted even among economic historians hostile to Keynes. "In the beginning was war," Niall Ferguson concluded in 2001. The Treatise, then, was an all-out assault on the intellectual foundations of laissez-faire. There was no such thing as a free market devoid of government interference. The very idea of capitalism *required* active state economic management—the regulation of money and debt. (189–90) (emphasis in original)

Given these conclusions, it is a wonder that Keynes could not see that the use of the gold standard to restrain marauding governments was the only way to prevent the thing which had repeated itself throughout history, from the earliest states: namely, the organized theft of resources by so-called "exchequers" and their equivalents, Babylonia to the Baroque Age. Instead of drawing the line at the amount of available gold, the only line proven to hold back a government itching to loot free people, Keynes moved in the opposite direction, toward world government, a government supposed to keep all other governments at bay. This is a most remarkable conclusion to draw from the evidence.

Thus we find Keynes at the negotiating table during the deliberate buyout of the battered British Empire by Wall Street. Keynes did not like the monied Americans buying up the remnants of Albion, but he was forced to admit that the logic was perfectly sound, however unsavory. And because Carter appears to follow Keynes in the *non sequitur* conclusion that because government is greedy, therefore government must control “capitalism” (this term is never defined, leading to bucking category shifts and jolting errors along the way), *The Price of Peace* is particularly weak on the Great Depression, which Carter sees as salvation of the American economy by Franklin Delano Roosevelt. (See Chapter Eight, “Phoenix”.) However, what really saved the post-WWI economy from state-driven speculation and state-enabled market boom and bust was, of course, WWII. Once the American economy had been hooked on the war drug and the currency brought under government control, it was only more war that could provide the craved-for fix. FDR did not save capitalism, war saved FDR’s re-election bid. But even though Carter hints in places that he understands that Washington’s war to save state intervention in the economy was at least partially a product of the Keynesianism that made Washington’s intervention in the economy politically possible in the first place, he still seems not to grasp fully that World War II was simply World War I multiplied by Keynes. Even so, however, the sections on the Roosevelt years are particularly interesting, as they provide glimpses into Keynes’s interactions with the Americans that help round out the standard histories of the era.

The real triumph of Keynes’s career came with Bretton Woods, the real reason that WWII was fought to the end. The Atlantic Charter, signed by FDR and British prime minister Winston Churchill in August of 1941, is often lauded as a high-minded statement of principles. What it amounts to, however, is a subtle transfer of title, the Americans declaring that the world will belong to them when the war is over, and England, in a face-saving maneuver, agreeing that as long as the Americans uphold certain principles (principles which the British Empire never upheld anywhere ever, even at home) the Empire could be theirs. Bretton Woods was the ingenious arrangement whereby the British Empire was bought out, wholesale, for the low, low price of quite literally a dollar. When Washington used Keynes’s playbook to set up a globalist empire of dollars, Keynes was the one who laid out the theoretical floorplan for the world’s new masters.

Here, too, Carter's book is most revealing. Carter skates past names such as Lauchlin Currie and Col. Edward M. House, scantly acknowledging their connection to world socialism until page 389, when he provides a somewhat lacking overview (no mention of Whittaker Chambers?) of the communist betrayal by so many Rooseveltians. I do not put Carter in this camp, but it has always struck me how blasé historians are when discussing Bretton Woods—the proceedings were crawling with communists and Stalinist agents, but reading most standard histories one would think all that was inconsequential, even a conspiracy theory. Carter's contextualization of Bretton Woods has helped me see, however, that there is no need to make a fuss over communists at the Bretton Woods table. Communism was just a less ambitious variety of the takeover attempt of the old British Empire, the takeover which the Americans pulled off with aplomb in the end. The British Empire was on the block—some vulgar communists bid a hammer and sickle, but the smoother breed of world socialists, many of them American, bid a worldwide currency instead, a paper scheme to bind all of mankind into one political arrangement. Currency as a political invention, indeed. Keynes built better (if that is the word) than he knew. The ancient Babylonians would have swooned with admiration.

Here we see that the difference between Muscovite and Washingtonian communists was that the former were thinking entirely too small. The Russians, to put it plainly, did not have the benefit of John Maynard Keynes. Bolsheviks wanted to control only the earth. New Dealers dispensed with the political quackery and simply gathered the entire universe together under the same balance sheet. What Cecil Rhodes had only dreamed of in mad hyperbole—"I would annex the planets if I could," Rhodes declared—Keynes helped make real. No later Washingtonian "moon shot" would have been possible had bureaucrats had to reckon with the realities of scarcity. Washington really did annex heavenly bodies. The Eagle landing was but one small step for a man, but one giant leap for the resting spirit of John Maynard Keynes. Once currency was decoupled from gold, then there was no restraint on imperialism other than the printing press.

The Price of Peace does not put things this way at all, of course, and because it relies on rather tired interpretations of Rooseveltianism and European fascism it asks the reader to suspend disbelief during the long stretch of wars and the tyrant-riddled interwar years.

However, the pace picks up again in the postwar, and Carter's book is especially strong the closer it gets to the present. Like the book, like the subject—Keynesianism in the postwar was hitting its stride. "For Keynesian economists," Carter writes:

> the late 1940s and 1950s weren't just an opportunity to flex their credentials [as Keynesian economists entered the ranks of the universities, think tanks, and government agencies, going mainstream]; the era seemed to vindicate their entire school of thought, as the federal government deployed the ideas of *The General Theory of Employment, Interest and Money* to manage the booms and busts of the business cycle. (371)

Carter here seems to betray an innocence of Mises's and other Austrians' carefully worked-out explanations of business cycles—the nutshell version is that governments do not manage them, governments cause them. Nevertheless, Carter takes us through a very tight history, rich in detail, of John Kenneth Galbraith, Richard Nixon, Gerald Ford, Alan Greenspan, Ronald Reagan, Bill Clinton, and the American trudge into a decidedly Keynesian new world order. Here one is reminded of Amity Shlaes's splendid book, *Great Society*, which has as a sub-plot the standoff between various American presidents and their Federal Reserve chairmen: Lyndon Baines Johnson glowering at William McChesney Martin, Richard Nixon plying Arthur Burns. One cannot understand why politicians should be menacing currency managers without understanding what powers Keynesianism put in the hands of central governments.

Carter's book ends with an appropriately somber note. As the failure of Lehman Brothers and a host of other rotten-apple firms—long propped up by government and the "exorbitant privilege" (to borrow a phrase from a slightly different context) of getting dollars hot off the government printing presses in a pinch—fell one by one, Carter notes that the Federal Reserve stepped in with massive outlays of cash to keep the "faltering international banking system" from collapsing. (521) "With the gold standard long gone," Carter writes, "there was no need to worry about reserves running dry." (521) "THIS IS THE PROBLEM," I wrote futilely in the margin beside this paragraph. Alas. What Keynes wrought was the endless intervention of the government into the economy. Keynesianism has become a kind of depressing episteme in its own right, the justification for the "remedies" of endless stimulus for devastation which stimulus caused in the first place. Keynes's various ideas got boiled down into an ideology, and that ideology now drives the American, and world, economy over fiscal cliff after fiscal cliff. Not cheerful.

I am not the only one who sees a strange disconnect between Keynes the man and Keynesianism. Keynes's disciple Joan Robinson, a minor but important character in *The Price of Peace*, also soured on Keynesianism, or at least on those who came after Keynes and claimed, falsely as she saw it, to speak in his borrowed timbre. Carter explains that Robinson "understood Keynesian thinking as a *doctrine*—a way of thinking about the world and its problems that could compete with other great philosophies in human history, a system of thought akin to Buddhism or Marxism." (414–15) Robinson watched in "horror," Carter writes, as those who called themselves Keynesians got "the dogma [of Keynesianism as a system] all wrong." (415) By the late twentieth century, Carter argues, politics had again surrendered to markets, with the World Trade Organization, the World Bank, and other supranational organizations taking over from nation-states. (497–501) Joan Robinson wrote in the *Journal of Post-Keynesian Economics* in 1979 that "the international economy is not a self-balancing system," and that the United States and Great Britain were "exceptionally vulnerable" to unregulated trade. (502)

It is along this argumentative track that Carter can assert that "the market was powerless to determine whether [Lehman Brothers] was solvent" during the crisis of 2008. (518–19) But, just as with Keynes nearly a century before, it was surrendering the market to politics in the first place that produced the catastrophe of lending houses entangled with one another in regulations and Washingtonian grift. Keynesianism had been vindicated, in a backhand way. People still have no idea where to draw the line between the government and the economy, once that first fateful line is crossed and a currency is made into an instrument of the state.

The Price of Peace may not get the "dogma" of Keynesianism right, at least not in an Austrian key. But despite this, or perhaps because of it, *The Price of Peace* is an essential read. This is how the world looks to Keynesians, and Carter, with admirable even-handedness (if also the occasional ham-fistedness in economic analysis), has presented the Keynesian world to readers, warts and all. He has also tracked the contours and vicissitudes of Keynes's public and private life, “drawing a line” between thinker and reputation and providing an excellent portrait—again, warts and all—of a centrally important man.