

Back In Demand

A great thinker has his admirers and detractors. Do his ideas logically cohere?

By N. GREGORY MANKIOW

John Maynard Keynes. The name, by itself, is something of a Rorschach test for economists. More than half a century after the death of this famed Cambridge University professor, he remains among the most controversial figures in the field. The recent economic crisis has raised Keynes's profile yet again and further stoked the debate over his contributions.

Most macroeconomists—that is, those who study the ups and downs of the overall economy—fall into one of two broad camps: Keynes admirers or Keynes detractors. When these groups cross paths, the result is the ivory-tower equivalent of a spitball fight.

To admirers, Keynes was nothing short of the savior of the capitalist system. His "General Theory of Employment, Interest and Money" (1936) proposed a diagnosis and remedy for the calamity known as the Great Depression. According to Keynes, economic downturns are not a fundamental indictment of the market economy. Rather, recessions and depressions arise from insufficient aggregate demand. A smart government can remedy the problem with its monetary and fiscal policy—say, by printing up some money and spending it. Once the right policies are put in place, the thinking goes, the world is safe again for free markets.

To detractors, Keynes was an economist whose reach exceeded his grasp: He tried to replace classic economic principles with new ones of his own, but what he offered was vague and incomplete. Keynes's many followers have tried to give his theory analytic rigor, but with only limited success. Despite these intellectual deficiencies, the detractors say, Keynesians recklessly push their ideas in the political arena, where they often lead to high inflation and excessive budget deficits. The fiscal policy of the Obama administration is a case in point. When the White House pushed for a massive increase in infrastructure spending to create jobs, it was taking a page from the Keynes playbook.

There is no doubt where Robert Skidelsky stands. A professor at the University of Warwick, he is the author of a magisterial three-volume biography of Keynes. After his years of research, he is a true believer. In "Keynes: The Return of the Master," Mr. Skidelsky makes the case for Keynes—not only for his place in the history of economic thought but also for his relevance today. To understand the global economic crisis of the past year, he says, we need more unadulterated Keynes.

In the Keynesian view as channeled by Mr. Skidelsky, the credit crunch happened because policy makers "succumbed to something called the efficient financial market theory: the view that financial markets could not consistently misprice assets and therefore needed little regulation." We must now aim at "treating symptoms." Thus: "Global aggregate demand is collapsing; extra spending is needed to revive it." In the long term, he says, we need "an expanded public sector, and a more modest role for economics as tutor of governments."

In his preface, Mr. Skidelsky says that he is a historian, not an economist. The book bears out the claim, in both its strengths and weaknesses. Mr. Skidelsky is most engaging when he draws on his biographical work. Keynes, we are reminded, had a fascinating life. He was a widely read intellectual who wrote accessibly for the general public. He advised world leaders on the crucial issues of the day and socialized with the artists and writers of the Bloomsbury group. But most of "Keynes" is devoted to ideas, not history, and here Mr. Skidelsky is not playing his strong suit. To economists his discussion of macroeconomic theory will seem pedestrian and imprecise. To laymen it will seem abstract and hard to follow.

As an ardent fan, Mr. Skidelsky fails to give Keynes's intellectual opponents their due. In academic circles, the most influential macroeconomist of the last quarter of the 20th century was Robert Lucas, of the University of Chicago, who won the Nobel Prize in 1995. His great contribution to the discipline was to analyze how government policies influence the economy in part through their effect on people's expectations – a lesson that Keynes would likely have appreciated but that early followers of Keynes often ignored.

Yet Mr. Skidelsky chooses to make Mr. Lucas sound like some kind of idiot savant, more interested in playing with mathematical models than in trying to understand how the world actually works. Mr. Lucas, we are told, is following in the tradition of the "French mathematician Leon Walras [who] pictured the economy as a system of simultaneous equations." The very idea is made to sound slightly crazed.

This brings us to the biggest problem with "Keynes." Mr. Skidelsky admits to being poorly trained in the tools that economists use: "I find mathematics and statistics 'challenging,' as they say, and it is too late to improve. This has, I believe, saved me from important errors of thinking."

Has it, really? Mr. Skidelsky would like to think that his math-aversion allows him to focus on the big ideas rather than being distracted by mere analytic details. But mathematics is, fundamentally, the language of logic. Modern research into Keynes's theories – I have conducted such research myself – tries to put his ideas into mathematical form precisely to figure out whether they logically cohere. It turns out that the task is not easy.

Keynesian theory is based in part on the premise that wages and prices do not adjust to levels that ensure full employment. But if recessions and depressions are as costly as they seem to be, why don't firms have sufficient incentive to adjust wages and prices quickly, to restore equilibrium? This is a classic question of macroeconomics that, despite much hard work, is yet to be fully resolved.

Which brings us to a third group of macroeconomists: those who fall into neither the pro- nor the anti-Keynes camp. I count myself among the ambivalent. We credit both sides with making legitimate points, yet we watch with incredulity as the combatants take their enthusiasm or detestation too far. Keynes was a creative thinker and keen observer of economic events, but he left us with more hard questions than compelling answers.