

Chapter 1

The Apostle Maynard

The Worldly Philosopher

Some surprise has been expressed about the large fortune left by Lord Keynes. Yet Lord Keynes was one of the few economists with the practical ability to make money.

—*FINANCIAL TIMES*, SEPTEMBER 30, 1946

In September 1946, five months after his death, the bequest of John Maynard Keynes was made public. His net assets totaled just under £480,000, or around \$30 million in today's money. Although Keynes had secured a number of board positions at leading City institutions and had received considerable royalties from some of his better-selling books, general amazement greeted news of his fortune. He had, after all, spent most of the preceding six years as an unpaid Treasury adviser; his parents had outlived him and therefore provided no inheritance; and Keynes, a great arts patron, had funded many cultural ventures out of his own pocket.

As suggested in the salmon-pink pages of the *Financial Times*, it was indeed Keynes' skill in the art of moneymaking that contributed to the bulk of his riches. Keynes' facility with money was not just limited to his own account, however. King's College—Keynes' spiritual, intellectual, and sometimes temporal home—was also a beneficiary of his financial acumen. In its obituary on Keynes, the *Manchester Guardian* reported that:

As bursar of his own college in Cambridge . . . he was conspicuously successful, and by bold and unorthodox methods he increased very greatly the value of its endowments.

Although little known to the wider world, in certain circles Keynes' investment expertise was prized. There are stories of other college bursars making the pilgrimage to King's College, where Keynes would lounge Buddha-like and regally impart investment wisdom to an eager audience. A colleague noted that "such was his influence in the City and his reputation abroad" that markets would move in response to his speeches delivered as Chairman of the National Mutual Life Assurance Society. He sat on the boards of numerous investment companies, from which he would, with the unwavering conviction of a papal nuncio, declaim his views on the stock market and government economic policy.

This aspect of Keynes—the shrewd investor, the canny player of financial markets—is rather unexpected in light of the man's early life and beliefs. Keynes was an aesthete, his first allegiance to philosophy and the art of living well. At school and university he displayed little interest in worldly matters, and for the remainder of his life exhibited an intensely ambivalent attitude to the pursuit of wealth. He believed in Francis Bacon's dictum that money makes a good servant but a bad master—in Keynes' formulation, money's merit lay solely in its ability to secure and maintain the conditions allowing one to "live wisely and agreeably and well." Like economics itself, money was a mere expedient, nothing other than "a means to the enjoyment and realities of life," and moneymaking little more than an "amusement."

Before proceeding to an examination of Keynes' investment activities and techniques, a brief survey of the early influences on the man's life is appropriate. For although Keynes did not take up

speculation and investing with any particular ardor until his mid-thirties, the attitudes that shaped his views on moneymaking were largely formed in his early years.

Enter the Hero

I like the name suggested—John Maynard Keynes sounds like the substantial name of the solid hero of a sensible novel.

—KEYNES' GRANDFATHER, JUNE 6, 1883

In the late nineteenth century, Britain was still the world's most powerful nation—"workshop of the world" and boasting an empire on which, famously, the sun never set. Other than occasional episodes of colonial disobedience, it had been decades since Britannia had been obliged to flourish her spear at an enemy of any substance. Before the Crimean War of the mid-1850s the last general European conflict was the Battle of Waterloo in 1815, in which the United Kingdom and its allies finally ended Napoleon's quest for French glory. Compared with the horrors and madness of the succeeding century, the Victorian era was a remarkable oasis of peace.

Emboldened by Adam Smith's paradoxical doctrine that selfish private actions transmuted into public virtues, and later by Darwin's observations on natural selection and survival of the fittest, *fin de siècle* British society embraced free trade and a substantially laissez-faire government. The spirit of competition and endeavor pervaded Queen Victoria's nation. Notwithstanding attacks on the flanks by the likes of Oscar Wilde and George Bernard Shaw, Britons fervently believed in the virtues of duty, hard work, and thrift. The stiff upper lip would, just occasionally, quiver and curl into a slight smirk of satisfaction when the British contemplated the patent superiority of their race.

Into this world of security, prosperity, and solid bourgeois values came John Maynard Keynes. He was born in June 1883 in the university town of Cambridge, his father an economics fellow at the University and his mother one of its first female graduates. Maynard, as he was known to family and friends, was subsequently joined by two siblings who themselves would figure in English public life—Geoffrey,

later an eminent surgeon and bibliographer, and husband to Charles Darwin's granddaughter; and Margaret, like her mother a prominent social reformer and destined to marry a Nobel Prize winner in medicine.

A Privileged Boy

Education: the inculcation of the incomprehensible into the indifferent by the incompetent.

—KEYNES (ATTRIBUTED)

Appropriately for one of the first true offspring of Cambridge University—for it was only in the late 1870s that the ancient statutes preventing Cambridge dons from marrying were repealed—Keynes shone intellectually. After a precocious childhood, bolstered by a rigorous study regimen devised by his father, Keynes secured a scholarship to Eton College, school of choice for British royalty and the nation's elite. Once at Eton, Keynes maintained his academic ascendancy, winning over sixty prizes during his five years there. Unlike some other Old Etonians such as Eric Blair—better known to the reading public as George Orwell—he also prospered socially and was elected College prefect in his final year at school.

Even at Eton, an institution not generally known for the humility of its incumbents, Keynes displayed an inordinate degree of intellectual haughtiness. One schoolmaster remarked, "I should like in certain things to see him a little more dissatisfied, a little more ready to note the points in which he fails." Another observed that "[Keynes] gives one the idea of regarding himself a privileged boy with perhaps a little intellectual conceit." He was quick-witted and cutting—he wrote of one of Charles Darwin's sons that "his hands certainly looked as if he might be descended from an ape," and complained that one particular schoolmaster was "dull and soporiferous beyond words . . . I shall not suffer from want of sleep this half." He embraced the prejudices of the upper middle class, holding in equal contempt the "absurd" aristocracy and the "boorish" lower classes—only the "intelligentsia," of which the Keynes family was a prime example, commanded his respect.

Like most other Establishment institutions of the time, Eton evinced a snobby disregard for commercial matters. The school had long been the proving ground for young gentlemen of the Empire—the Duke of Wellington famously, if apocryphally, affirmed that the Battle of Waterloo was won on Eton’s playing-fields—and there was little room for the ungallant trade of the businessman in this sanctuary of old-world values. The only hint of Keynes’ subsequent career as an economist and investor was the schoolboy’s almost autistic preoccupation with lists and numbers—Keynes obsessively recorded cricket scores, train times, hours worked, variations in his body temperature, and even “the comparative lengths of some long poems” during his time at Eton.

The Cambridge Idyll

The appropriate subjects of passionate contemplation and communion were a beloved person, beauty and truth, and one’s prime objects in life were love, the creation and enjoyment of aesthetic experience and the pursuit of knowledge.

—KEYNES ON THE APOSTLES, *MY EARLY BELIEFS*

On the back of a scholarship to King’s College, Keynes returned to Cambridge in 1902 to study mathematics and classics. With customary chutzpah, he announced in his freshman year that “I’ve had a good look round the place and come to the conclusion that it’s pretty inefficient.” Although a gifted mathematician, he was by no means a prodigy, and in late 1905 placed twelfth of those receiving a First Class degree. While at university Keynes also found time to cultivate his social interests, and in his final undergraduate year became president of the Cambridge Union and president of the Liberal Club.

The most important influence on Keynes while at Cambridge was a secret society known to initiates as “the Apostles.” This group recruited from the promising young men of Cambridge—E. M. Forster, Wittgenstein, and Bertrand Russell were fellow members—and its defining principles were best expressed in G. E. Moore’s *Principia Ethica*, published during Keynes’ first year at Cambridge. Moore’s philosophy was

profoundly nonmaterialistic and unworldly—Keynes once commented that, in comparison to the *Principia*, “the New Testament is a handbook for politicians.” Moore, a Cambridge academic, believed that:

By far the most valuable things, which we know or can imagine, are certain states of consciousness, which may be roughly described as the pleasures of human intercourse and the enjoyment of beautiful objects.

Many of the Apostles applied a very particular interpretation to Moore’s endorsement of the pleasures of human intercourse. In the cloistered and covert world of the society, where aesthetic experience and intimate friendships were paramount, relations often transcended the merely platonic. Keynes reminisced many years later that “we repudiated entirely customary morals, conventions, and traditional wisdom . . . [and] recognized no moral obligation on us, no inner sanction, to conform or to obey.”

Standing aloof from the masses, the Apostles developed a superiority complex to match the belief that only they possessed the requisite sensitivity to truly appreciate the finer things in life. Keynes likened the group to “water-spiders, gracefully skimming, as light and reasonable as air, the surface of the stream without any contact at all with the eddies and currents underneath.” Others, less charitably, dismissed the group as self-indulgent and ridiculous, twisting Moore’s philosophy into “a metaphysical justification for doing what you like and what other people disapprove of.”

An India Man

Cecily, you will read your Political Economy in my absence. The chapter on the Fall of the Rupee you may omit. It is somewhat too sensational. Even these metallic problems have their melodramatic side.

—OSCAR WILDE, *THE IMPORTANCE OF BEING EARNEST*

Reality eventually intruded into Keynes’ life and, after graduating in mathematics, the practical question of how to earn a living confronted

him. He toyed with the idea of undertaking a second degree in economics, and for a while attended lectures given by Professor Alfred Marshall, a personal friend of the Keynes family and probably the world's most influential economist at the time. Despite Marshall's entreaties—"I trust your future career may be one in which you will not cease to be an economist," the Professor implored—Keynes eventually opted for a career as a government man. In August 1906 he sat for the nationwide Civil Service examination, where he placed second overall. Ironically, his worst mark was in economics, prompting Keynes to remark that "the examiners presumably knew less than I did."

Unable to secure his first choice of government department—the Treasury—Keynes became a cog in the machine of Empire, moving to London and joining the India Office as a junior clerk in October 1906. In those days of the "gold standard"—the convention then prevailing in most Western nations, whereby a country's exchange rate was determined by its reserves of gold—India's rather less domesticated monetary system attracted considerable interest among theoretical economists, and may have been influential in Keynes' career choice. Despite the alleged allure of the maverick rupee, however, Keynes found the India Office singularly unexciting. Unedifying tasks such as arranging the shipment of ten stud bulls to Bombay, Keynes' first assignment, undoubtedly presented a rude contrast to the rarefied climes he had inhabited in Cambridge.

The Bloomsbury Rebellion

We were out to construct something new; we were in the van of the builders of a new society which should be free, rational, civilized, pursuing truth and beauty. It was all tremendously exhilarating.

—LEONARD WOOLF ON THE BLOOMSBURY GROUP

Offsetting the dullness of the Civil Service was the loose and fluctuating coterie of artists, writers, and philosophers who coalesced at the residence of Virginia Woolf and her siblings. Like the Apostles before them, the Bloomsbury group—named after the London district of garden

squares and grand houses—reveled in confounding the traditional pieties and restraints of society. A herald of the counterculture movement later that century and the original bourgeois Bohemians, one “Bloomsberry” later recounted:

We found ourselves living in the springtime of a conscious revolt against the social, political, religious, moral, intellectual, and artistic institutions, beliefs, and standards of our fathers and grandfathers.

The group’s willingness to slough conventional modes of thought and behavior naturally extended to the more intimate domain of personal relationships. Bloomsbury affairs were notoriously labyrinthine and prickly—it was said that Bloomsberries “lived in squares but loved in triangles.” Romantic intrigues, betrayals, and sniping provided a diversion from earnest discussions on art, ideas, and the meaning of life, and members of the group sometimes used their artistic gifts in the service of less than genteel verbal assaults. Virginia Woolf, in a fit of pique, once likened Keynes to “a gorged seal, double chin, ledge of red lip, little eyes, sensual, brutal, unimaginative,” although this outburst could quite possibly have been in response to Keynes’ gentle suggestion that she stick to nonfiction.

The more conservative elements of society regarded the Bloomsberries with open hostility. John Buchan, author of *The Thirty-Nine Steps* and a stalwart Victorian, dismissed them as:

. . . the usual round-up of rootless intellectuals . . . terribly knowing and disillusioned and conscientiously indecent . . . a smattering not so much of facts as of points of view . . . They took nothing for granted except their own surpassing intelligence . . .

Although indeed possessed of a stratospheric self-importance, the group’s pretensions were not completely unfounded. They were outriders for new styles of thought and artistic expression, and—ironically for a medley of such unrestrained egos—were instrumental in shepherding other, greater, artists and thinkers before the public eye. Picasso, Freud, Proust, Cézanne, and Matisse, among others, entered the English-speaking world largely through the Bloomsbury portal.

The Uncivil Servant

I work for a Government I despise for ends I think criminal.

—KEYNES TO DUNCAN GRANT, DECEMBER 15, 1917

Defeated by the tedium of the job, Keynes resigned from the India Office in June 1908 and returned to King's College, where he submitted a dissertation on probability—according to one newspaper, “a thesis on mathematics so advanced that it was said that only three people on earth could understand it.” He was elected to a fellowship in March 1909 and, although having no formal qualifications in the subject, taught economics and finance at Cambridge. Keynes became a polished and popular teacher, with some lectures—particularly those relating to the stock exchange—drawing capacity crowds.

During this time at Cambridge Keynes began to ascend the ladder of academia and public life. In 1911 he was appointed editor of the *Economic Journal*, perhaps the world's leading professional economics periodical at the time. Less than two years later, his first book, *Indian Currency and Finance*, was published and Keynes became a member of the Royal Commission on Indian Finance—a prestigious appointment for someone not yet thirty years of age. Keynes' Cambridge idyll was shattered, however, in the balmy summer of 1914 when Queen Victoria's grandsons Willy and Georgie—Kaiser Wilhelm II of Germany and King George V of Britain—led their nations into the first great conflict of the new century.

The declaration of war in August 1914 drew Keynes back to the Civil Service, this time at Treasury where he advised on the financing of the British war effort. Keynes' Bloomsbury acquaintances, fiercely pacifist, objected to his new role. One challenged Keynes:

What are you? Only an intelligence that they need in their extremity . . . A genie taken incautiously out of King's . . . by savages to serve them faithfully for their savage ends, and then—back you go in to the bottle.

Despite their high-minded criticism of his role as a hired gun in the “European blood feud,” as Keynes labeled the Great War, the

Bloomsberries were not averse to exploiting Keynes' increasing influence within the Establishment. He often appeared before tribunals as an advocate for those male members of the group seeking to avoid the draft. In a hearing for Lytton Strachey—delicate aesthete and Keynes' one-time paramour—the army prosecutor demanded to know what Strachey would do if a Hun attempted to rape his sister. Poker-faced, he replied in his peculiarly squeaky voice, "I should try and come between them."

Keynes was "absolutely and completely desolated" by the carnage of the war and the government's determination to pursue victory at any cost. Many of his university friends, including the celebrated poet and patriot Rupert Brooke, remained forever on the foreign fields where they fell. In a tragic ambush of the old world by the new, these sons of the upper classes were invariably ordained "officer material" and, honoring the traditions of ages past, obliged to march into battle at the head of their men—only to be met by the murderous steel storms of modern weaponry. Keynes' letters to his former classmates were sometimes returned to him unopened, the bleak epitaph "Killed" scrawled across them.

Frustrated and conflicted over his role as an intellectual mercenary for the war effort, Keynes' reputation for arrogance and condescension ripened. On a trip to the United States in 1917 he made a "terrible impression for his rudeness." The British Ambassador to the United States noted in his high camp style that:

This morning we got a visit from [Keynes] . . . who was very Treasuriclaracious and reduced Dicky to silentious rage and Malcolm to a high treble. He was really too offensive for words and I shall have to take measures. He is also a Don and the combination is not pleasing. He is also a young man of talent and I presume the rule for such nowadays is to show his immense superiority by crushing the contemptible insignificance of the unworthy outside.

Keynes was beginning to find his voice—the impudent junior rebuking his masters, the gadfly nipping at the flanks of a complacent Establishment, the double agent within the citadel, valuing truth above expediency.

A Carthaginian Peace

Words ought to be a little wild, for they are the assault of thoughts upon the unthinking.

—KEYNES, *NATIONAL SELF-SUFFICIENCY*

Expected by most to last only a few months, it was four years before the war finally gave way to an armistice in November 1918. France, which lost a staggering 1.4 million men during the conflict, was determined to make Germany pay dearly for its perceived belligerence. Britain, which together with its dominions recorded close to a million men dead, was initially more conciliatory. The British Prime Minister, David Lloyd George, observed in March 1919 that the preservation of peace on the Continent would depend “upon there being no causes of exasperation constantly stirring up either the spirit of patriotism, of justice, or of fair play, to achieve redress.” Accordingly, he advocated peace terms:

... dictated ... in the spirit of judges sitting in a cause which does not personally engage their emotion or interests, and not in a spirit of savage vendetta, which is not satisfied without mutilation and the infliction of pain and humiliation.

Despite these lofty words, the Paris Peace Conference degenerated into an unseemly auction of the aggrieved, a contest among the victors as to which could carve the most from the husk of central Europe. In an effort to appease constituents at home and deliver on promises to “make Germany pay,” the Allied leaders imposed a war guilt clause on Germany—an explicit statement that the German state and its confederates were solely responsible for the Great War—and also a reparations clause requiring Germany to “make compensation for all damage done to the civilian population of the Allied and Associated Powers and to their property.”

Keynes, attached to the British delegation as an economic adviser, scorned the shortsightedness of the Allied leaders:

The future life of Europe was not their concern; its means of livelihood was not their anxiety. Their preoccupations, good and bad alike, related to frontiers and nationalities, to the balance of power, to imperial aggrandizements, to the future enfeeblement of a strong

and dangerous enemy, to revenge, and to the shifting by the victors of their unbearable financial burdens on to the shoulders of the defeated.

On his thirty-sixth birthday, June 5, 1919, and as the Treaty of Versailles was being finalized, Keynes resigned in protest at the “Carthaginian peace” to be imposed on the vanquished nations.

Freed from the constraints of the Civil Service, he produced in only a few months a withering critique of the Conference. *The Economic Consequences of the Peace*, published in December 1919, was a sensation—translated into eleven languages and selling over 100,000 copies in its first full year of publication. The book was celebrated as much for its bravura portraits of key Conference participants as for its political and economic arguments. Keynes depicted the American President Woodrow Wilson as a “blind and deaf Don Quixote” who “like Odysseus . . . looked wiser when he was seated,” and the French leader Georges Clemenceau as a xenophobe with “one illusion—France; and one disillusion—mankind.” Warming to his theme, he parodied Lloyd George as “this goat-footed bard, this half-human visitor to our age from the hag-ridden magic and enchanted woods of Celtic antiquity.” Cooler heads eventually persuaded Keynes to withhold this last pen portrait from the published version of his book.

In a conclusion of frightening prescience, Keynes declared that the aggressive reparations terms would return to haunt the Continent:

If we aim deliberately at the impoverishment of Central Europe, vengeance, I dare predict, will not limp. Nothing can then delay for very long that final civil war between the forces of reaction and the despairing convulsions of revolution, before which the horrors of the late German war will fade into nothing, and which will destroy, whoever is victor, the civilization and the progress of our generation.

Disestablished

The book in a certain sense was the turning point in Lord Keynes' career. Thereafter he was no longer a mere economist but a prophet and pamphleteer, a journalist and the author of a best seller.

—THE NEW YORK TIMES ON *THE ECONOMIC CONSEQUENCES OF THE PEACE*

In a pattern that would be repeated over the rest of his life, Keynes' robust take-no-prisoners style polarized opinions. Many derided his perceived pro-German sympathies—some mockingly referring to him as “Herr Johann von Keynes,” others suggesting he be awarded an Iron Cross—and he was cast on the outer by the government he had so effectively ridiculed. *The Economic Consequences of the Peace* marked Keynes' transformation from a mere government functionary operating on the periphery of diplomacy and academia to an influential and dissident public figure—he commented that, following publication of the book, “I woke up like Byron, famous and disreputable.”

Notwithstanding his newfound notoriety, Keynes—jobless after resigning from Treasury—desperately needed another source of income to sustain the rather lavish lifestyle to which he and the Bloomsbury circle had become accustomed. Putting his money where his mouth was, Keynes decided to back the pessimistic views expressed in *Economic Consequences* by speculating heavily on the foreign exchange market, taking short positions on key Continental currencies and long positions on the U.S. dollar. Keynes believed he was ideally equipped to play the speculation game—having lectured on the subject at Cambridge, he knew something of finance and exchanges; his stint at Treasury had provided an insight into global realpolitik and the interplay of capital flows; and he had ready access to a pool of investors willing to back his trading activities.

Additionally, speculation offered the pleasing prospect of earning considerable amounts of money relatively painlessly. Like his contemporary Winston Churchill, much of Keynes' business was transacted while lounging in his bed. As one of his biographers noted:

Some of this financial decision-making was carried out while he was still in bed in the morning; reports would come to him by phone from his brokers, and he would read the newspapers and make his decisions.

It is to this incarnation of Keynes—the aesthete, the outsider, the languid speculator—that we now turn.

