KEYNES FOR OUR TIMES*

*Robert Skidelsky***

Keynes's moral philosophy and embrace of uncertainty can guide economics, finance, and AI-driven markets today

Artificial intelligence has a penchant for pronouncements that are clear, confident…and often wrong. More than a passing technical flaw, this speaks to the difficulty we all—including AI's human architects—face in dealing with uncertainty.

John Maynard Keynes, in contrast, understood that the future is essentially unknowable, and it is "better to be vaguely right than precisely wrong." This insight remade economics in the 20th century, and it is but one of his ideas that are even more relevant in our own extremely uncertain times.

To understand Keynes's importance today, we go back to his original genius, see how observation and philosophy informed his flexible economic models, and then apply his insights to the problems of 2026.

Two philosophical commitments grounded his economics: in ethics, the distinction between "good as a means" and "good as an end"; in epistemology, the existence of ineradicable uncertainty. I shall return to the former. Regarding the latter, it was Keynes's study of uncertainty that led him to give money its starring role in the economy.

Far from just a passive tool for barter, money, he showed, is a psychological refuge that can push an entire economy toward collapse when people flee to the safety of cash—a phenomenon we've seen multiple times this century, and one we may be heading toward again.

This desire for cash was a moral flaw to him—inseparable from what he called the "love of money," a disease of the mind that drains life from the economy. We will explore how this "vampiric" quality of money creates a power struggle between those who lend and those who build, a conflict that Keynes believed defined much of human history.

Seeing how "machine guns and concentration camps" arose from the mass unemployment of the Great Depression, he writes that "it may be possible by a right analysis of the problem to cure the disease while preserving efficiency and freedom." Understanding the successes and failures of the post–World War II system he willed into being is critically important today, when that system is arguably more in flux than at any time since his death.

A "right analysis" of Keynes's ideas provides clues on how to address today's trade and external imbalances and financial disruptions without resorting to blunt tools such as global

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**Robert Skidelsky was the foremost biographer of John Maynard Keynes and a life peer of the UK House of Lords. Editor's Note: The author died on April 15, aged 86, before editing was complete. Final edits to this article, which draws on his forthcoming book, Keynes for Our Times, were agreed to by his assistant, Attila Mesterházy, who worked with him on the book.

tariffs. His insights can help address ethical questions raised by AI. More broadly, he provides a framework for managing a world that feels increasingly out of control.

Rationally unreasonable

To understand Keynes's commitment to reckoning with uncertainty, start with his distinctive theory of probability. Earlier neoclassical economists saw the future as predictable. He did not. He described probability as the degree of belief in a conclusion justified by evidence. "One can always cook a formula to fit moderately well a limited range of past facts," he writes. "But what does this prove?"

In fact, it is rational to be "unreasonable" in hoarding cash when there is no secure basis for making calculations about the future. His astounding realization that money plays "a part of its own" in the economic drama—that it does more than merely lubricate barter, as previous economists believed—developed over a quarter century.

It started with an attack on the gold standard. The problem, he said, was that gold's scarcity created a deflationary bias, whereas expanding economies require an increasing amount of "lubricating" money. When gold was in short supply the whole economy collapsed, as seen in the Long Depression of the 1880s and 1890s.

Keynes's initial proposed instrument to emancipate economies from their golden fetters was the Quantity Theory of Money. It promised to restore monetary "neutrality" through a scientifically managed elastic currency to fit the "needs of trade." But he soon realized that this mechanism didn't work quickly enough.

The next innovation, elucidated in A Treatise on Money (1930), was to consider the implications of money circulating at different speeds. He divided money flows into two types of circulation, one for what is now called the "real" economy, the other a "financial" circulation, which explained how asset prices and unemployment can rise simultaneously in the short run. But it didn't explain hoarding.

The Great Depression then led to the liquidity preference theory—the final stage of Keynes's theory of money. "It may still be the case," he said in 1932, "that the lender, with his confidence shattered by his exposure, will continue to ask for new enterprise rates of interest which the borrower cannot expect to earn."

Liquidity premium

A collapse of investment is simultaneously a flight to liquidity. Flight gives money added value, a "liquidity premium" that causes interest rates to rise rather than fall—the exact opposite of what orthodox theory asserts. We see liquidity preference at work today. It explains the global financial crisis of 2008, the early-COVID-era dash for cash, dramatic swings in stock prices known as “flash crashes,” and other recent market seizures.

The whole story depends on irreducible uncertainty about future events. “By ‘uncertain’ knowledge, let me explain, I do not mean merely to distinguish what is known for certain from what is only probable. The game of roulette is not subject, in this sense, to uncertainty... The sense in which I am using the term is that in which the prospect of a European war is uncertain, or the price of copper and the rate of interest twenty years hence, or the obsolescence of a new invention... About these matters there is no scientific basis on which to form any calculable probability whatever.”

In such information-poor “we don’t know” markets, investors rely on conventional wisdom about future prices. When the conventions break down, as they are periodically bound to do—being so flimsily based—there is a flight from commitment. Money takes control of the economic plot.

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A moral flaw

Would Keynes have given money such a starring role had he not found something intrinsically immoral about it? Probably not. There is a strong moral and psychological undercurrent to Keynes’s view of money, in which the love of money, far from being a rational response to uncertainty is motivated by avarice, love of power, and love of gold.

In Keynes’s monetary drama, the love of money is Janus-faced. Although it pumps blood into static predindustrial economies, excessive love of money sucks the blood out of modern ones. The vampiric quality of money was symbolized for Keynes in the legend of King Midas of Phrygia, whose greed for gold was so intense that (in some versions at least) he starved to death. This is not rational liquidity preference, but a psychological morbidity.

Keynes acknowledged that in the past, “risks and hazards of all kinds” may have played a large part in inducing people to hoard money. He was puzzled, though, by the persistence of this propensity in modern times, when conditions of life are much more secure. Instead of seeing saving as a virtue, Keynes saw it as a brake on enterprise. “[I]t is not thrift but enterprise which builds cities and drains fens.”

Keynes saw the struggle for power between creditors and debtors as the economic plot of history. The purpose of his economic reforms was thus to reduce the power of the creditor over economic life. These plans reflected his view that the love of money is a disease of the soul—but also a felix culpa, or “fortunate fault”—because it drives the economic growth that will free humanity from toil. To expedite this freedom, government programs should harness “the inordinate desire for getting wealth” to drive productive investment.

Keynes for today

Which aspects of this outstanding thinker's legacy demand our attention today? Let me suggest three.

First, a return to the question of the purpose of economic growth. How much more growth, and what kinds of growth, are needed to secure the material conditions of the good life? Which economic system can best bring about the required conditions?

The initial purpose of economic activity is utilitarian: making a living. But beyond this, says Keynes, economic activity is a means to achieving the good life and should not be extended beyond what is needed for that purpose. This philosophy can help center our discussion of the profound ethical questions about the future of humans in an AI-enabled future.

It can also help fortify us to address the coexistence of unimaginable hoarding of wealth with widespread stagnation and underemployment—these conditions reinvigorate Keynes's argument for public investment. "Vigilant observation" alone should enable consigning to the dustbin such currently fashionable lunacies as the efficient market hypothesis.

Second, a new impulse to put money back in circulation—to disgorge hoarded wealth. It is worth recalling that Keynes's original attack on the gold standard was directed at both the metal's scarcity and the propensity of surplus countries like the United States—the King Midas of Keynes's day—to hoard it. The purpose of his successive plans for global monetary reform, including the International Clearing Union, was to get the US to disgorge its gold holdings and to restore balanced trade.

The US rejection of this approach resulted in the dollar-centered Bretton Woods system, set up in 1944 with the greenback alone convertible to gold. The US then started to suffer from the King Midas problem as the dollar, the world's leading reserve currency, became progressively overvalued against those of its main competitors, most recently China.

A decline in the value of the dollar was, therefore, necessary to restore US manufacturing and export capacity. President Donald Trump's tariffs may be seen as a crude attempt to secure the necessary currency realignment, but at the expense of a huge disruption to trade and finance.

Keynes would aim for a less disruptive path to trade balance. The most important step would be to replace the reserve function of the dollar with a new international reserve currency he called the "bancor." The same result could be achieved through a progressive increase in the special drawing rights of IMF members.

China's former central bank governor, Zhou Xiaochuan, revived Keynes's bancor idea in 2009 as a way to provide the liquidity needed for expanding international trade. But that movement for currency reform was quashed by the US.

Facing the future

Third, fearlessly facing dangerous times. This aspect of Keynes's legacy calls us to face current dangers by boldly seeking remedies for capitalism's ills that preserve "efficiency and freedom."

Today we face questions similar to those of a century ago: Does the increasing division of the world into hostile blocs portend a regression to barbarism? Can democracy tame financial oligarchy? Can it tackle racial and cultural conflict and invest in a way that counters growing inequality within countries and global warming? Or is a retreat of democracy, accompanied by domestic and international violence, inevitable?

In 1939, Keynes looked to war as the grand experiment to prove his case. He was right. It was World War II, not The General Theory of Employment, Interest, and Money, that brought about full employment. But however tempting it is to remove surplus capacity through military spending, Keynes's ideas are independent of any purposes that may make use of them.

The collapse of belief in the possibility of a good future has contributed to the amplification of the world's troubles—economic, geopolitical, spiritual. The question today is as brutal as the one Keynes posed in 1936: Is an apocalypse needed to jolt politicians out of their intellectual ruts, or can a better analysis of our problems restore to health our diseased civilization in conditions of peace and freedom?