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Some Economic Consequences of a Declining Population

By J. M. Keynes

Introduction by David Coleman

For demographers, and for members of the Galton Institute, John Maynard Keynes (1883-1946), Baron Keynes of Tilton, may be most remembered for having turned his astonishing talents to address the issue of population in his famous Galton Lecture of 1937, which is reprinted below. Before considering that essay, however, we should step back to consider Keynes the academic economist, the civil servant, the international negotiator, the college bursar, the patron of art. In early life he oscillated between civil service life in the India Office (1906–08), and lecturing in economics at Cambridge (1908–13), where he began his editorship of the *Economic Journal* up to 1945. He returned to the civil service in 1915, joined the Royal Commission on Indian Finance and Currency 1913–1914 and acted as the principal representative of HM Treasury at the Versailles Peace Conference in 1919. There, his farsighted belief that the Versailles proposals on changing European borders, and on German reparations, were destructive and counter-productive provoked his resignation in 1919. His objections were set out in *The Economic Consequences of the Peace* (1919), the first and one of the most famous of a number of books which set out strong opinions in compelling, lucid and elegant prose seldom if ever approached by latter-day economists and demographers. A short example may suffice, from the ‘General Theory’ (Ch. 24):

“The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. Now ‘in the long run’ this [way of summarizing the quantity theory of money] is probably true … But this ‘long run’ is a misleading guide to current affairs. In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again’.

His chief work was in his influential books and pamphlets attacking laissez-faire economics and the return to the gold standard, advocating instead a radically new approach to economic management that was widely adopted, and widely misunderstood, post-war. Other innovative ideas related to interest rates and short-term equilibrium. He returned to the Treasury in 1940 and in 1944 played a leading part in the Bretton Woods Conference. He was the first British governor on the International Monetary Fund and the International Bank, but these institutions owed more to US Treasury orthodoxy than to Keynes’s ideas. He was responsible for the negotiations with the United States on Lend-Lease 1944–45 and for a crucial post-war loan, helping to save Britain from the ‘economic Dunkirk’ that faced us after paying for global war for six years.

Keynes was from an academic family (his father was an economist and logician at Cambridge) and moved in elite cultural and intellectual circles, being a member of the ‘Apostles’ at Cambridge and the Bloomsbury Group in London. He had wide interests. Marriage to the Russian ballerina Lydia Lopokova (1925) developed his taste for ballet. He built and financed the Arts Theatre, Cambridge (1935) and helped to found the Arts Council, being its first chairman. His brilliant writing style not only elucidated economic problems but covered wider areas. For example his ‘Essays in Biography’ (1933), still highly readable, included an essay on Malthus, although he concentrated on Malthus the economist, with whose views he had much sympathy, rather the Malthus the pioneer ‘demographer’. I put that word in quotes because of course it was not used in Malthus’ time. Malthus’ demographic writings were essentially those of an economist; indeed it was Malthus’ pessimistic outlook that gained for economics the epithet of ‘the dismal science’. Putting his abilities to practical use Keynes also amassed a large fortune for himself and for King’s College Cambridge, of which he was Bursar from 1919-46.

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Apart from his condemnation of the Versailles arrangements his best-known works are the Treatise on Money (1930) and the ‘General Theory of Employment, Interest and Money’ (1936), the most influential single work on economics of its age. This showed how aggregate demand, and therefore unemployment, was determined. Keynes believed that economic systems at equilibrium had no necessary tendency to full employment and that such systems were in many ways inherently unstable and had to be managed. In a depression, even the lowest wages could not eliminate unemployment. Individual consumer spending was often inadequate to create sufficient demand; a fear he shared with Malthus. Instead unemployment could be cured by state demand management through public works, through subsidies or the stimulus of private investment, funded by budget deficit. In these theories, the notion of the income/expenditure multiplier held a central place. All this was strongly opposed to Treasury orthodoxy and to the views of other economists such as von Hayek.

Post-war governments adopted ‘Keynesian’ policies and committed themselves to full employment. His followers, however, were often more ‘Keynesian’ than was Keynes himself. A new era has moved on from demand management; a position challenged by the revival of monetarist and supply-side thinking. His concern with the problems of ‘oversaving’, the failure of demand, and the need for public works echoed similar concerns first voiced by Malthus in 1820. In today’s world this combination of ‘lowest-low’ fertility, and oversaving leading to the failure of domestic demand and economic stagnation, is most acutely obvious in Japan, where population decline is imminent.

Keynes devoted no major work to population issues, only short pieces, although some major works make strong demographic assumptions. For example, a ‘neo-Malthusian’ view is prominent in his ‘Economic Consequences of the Peace’. There he noted that Europe’s dense population had enjoyed pre-war a high standard of living although no longer self-sufficient in agriculture or raw materials, relying instead on manufactured exports. He feared that such large populations, especially those of Germany (then 68 million) and Russia (then 150 million), could no longer be sustained following the destruction of industry and in the absence of opportunities for mass emigration.

Keynes was thus initially concerned with the ‘Malthusian devil O of Overpopulation’. This devil, chained up when conditions were favourable and productivity rising, would be released when the temporarily advantageous conditions which had provoked population growth came to an end. Keynes campaigned against the then current ‘pronatalist’ opinion, which he feared would tend to reduce the standard of living. He felt that the falling birth rate of the early post-war years reflected favourable social developments, although he feared, as did many other intellectuals of his day, the adverse eugenic consequences of the more prudent nations, and classes, who were reducing their fertility before others did. These views were summarised in his 1912 lecture on ‘Population’, which has only recently been made generally available (in a recent review of Keynes’ on population (Toye, 2000) where a much more detailed analysis may be found).

However, Keynes changed his mind somewhat radically during the later 1920s, coming to reject his earlier economic pessimism and with it some of his Malthusian views on the perils of over-population. Instead he became more concerned with the risk of inadequate demand, giving in his 1933 biographical essay on Malthus much more prominence to Malthus the economist (worried, like Keynes, about failure of demand) than to Malthus the demographer (worried, as Keynes had been, about overpopulation). In his Galton Lecture of 1937, his most balanced view of population issues, Keynes points to the opposite threat that population decline, for the first time in centuries a real possibility by the 1930s, might unchain the other Malthusian devil U of Underemployed resources, through excessive savings and underconsumption. In a stationary population, he argued that the two ‘Malthusian devils’ could only be kept in balance by increased consumption, more equal incomes and low interest rates. He ended up promoting family allowances and other pronatalist policies to avert population decline, which he had earlier condemned, while recognising that overpopulation could exist elsewhere. Keynes cannot be blamed too much for changing his mind. He defended such flexibility in one of the numerous epigrams attributed to him, asking unanswerably ‘when I find that I have made a mistake, I change my mind. What do you do?’

Despite his skills as an economist, his inconstant efforts on population, little supported by data or technical understanding, did not show him at his best. It will be noted in the essay printed below that very little statistical evidence is presented either on demographic or on economic trends or on the relationship between the two. Instead everything is based on first principles. These days Keynes’ twin worries are still with us, but separated in space. Population growth does continue in the poorest countries of the world at a high rate, although the global rate, and even the annual absolute increment, has been declining for some time. In the richer countries, however, only the United States has a current birth rate able to maintain its population in the long run. Family allowances or other, more subtle welfare measures are now part of most western countries’ basic social policies. Ostensibly these have been developed for family welfare purposes and to enhance the flexibility of the labour force. Dictatorships of left and right have given overt pronatalist a bad name. But as population momentum runs out of steam, and as the population decline envisaged in Keynes’ time finally starts to
become a reality in some European countries, the demographic as well as the welfare importance of enabling women to have the number of children that they say they want is gaining ground in public debate in a number of Western countries, as well as in Japan, and is most recently articulated in the EU Commission’s Green Paper. Other prominent concerns of today, the inevitability of population ageing and the rise of mass migration, were not really considered in Keynes’ work, even though the former at least should have been seen as the writing on the wall by technical demographers in the 1930s as an inevitable consequence of lower birth rates.

Keynes was probably the most influential economist of the 20th century and often regarded as the ‘father of modern macro-economics’. He suffered a major heart attack in 1937, and worn out by his exertions to secure a post-war economic settlement, died in 1946. He had no children.

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