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WAS KEYNES A LIBERAL OR A SOCIALIST?

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ABSTRACT

Right-wing critics of Keynes have often suggested that he was a socialist. His policy proposals were very often described as a slippery slope that would lead society into a totalitarian nightmare. Alternatively, from the left, Keynes was often seen as a reformist that intended to preserve the essence of capitalism. His reforms were mere window dressing on an exploitative system. The scholarship on Keynes also remained divided. However, in the last few decades a more robust position in favor of Keynes' socialist affiliation was developed, particularly in the careful scholarship by Rod O'Donnell and James Crotty. This paper suggests that while Keynes was a pragmatist willing to experiment in economic policy, and fully aware of the need to transform and transcend *laissez-faire* capitalism, he remained a liberal, in particular because Labourites, and most socialists, remained conservative in their economic policy outlook. Keynes was a revolutionary in economic theory, but a moderate in his politics.

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Was Keynes a Liberal or a Socialist?¹

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Abstract:

Right-wing critics of Keynes have often suggested that he was a socialist. His policy proposals were very often described as a slippery slope that would lead society into a totalitarian nightmare. Alternatively, from the left, Keynes was often seen as a reformist that intended to preserve the essence of capitalism. His reforms were mere window dressing on an exploitative system. The scholarship on Keynes also remained divided. However, in the last few decades a more robust position in favor of Keynes' socialist affiliation was developed, particularly in the careful scholarship by Rod O'Donnell and James Crotty. This paper suggests that while Keynes was a pragmatist willing to experiment in economic policy, and fully aware of the need to transform and transcend *laissez-faire* capitalism, he remained a liberal, in particular because Labourites, and most socialists, remained conservative in their economic policy outlook. Keynes was a revolutionary in economic theory, but a moderate in his politics.

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"Liberals' obsession with fascism, moreover, leads them to see 'fascist tendencies' or 'proto-fascism' in all opinions unsympathetic to liberalism, just as the far right detects 'creeping socialism' in liberalism itself."

Christopher Lasch
The True and Only Heaven

Virginia Woolf argued in her essay on 'The Art of Biography' that: "the majority of Victorian biographies [were] like wax figures now preserved in Westminster Abbey, that were carried in funeral processions through the street - effigies that [had] only a smooth superficial likeness to the body in the coffin" (Woolf, 1942: 188-189). She went on to say that: "we live in an age when a thousand cameras are pointed, by newspapers, letters, and diaries, at every character from every angle, he [the biographer] must be prepared to admit contradictory versions of the same face" (Ibid.: 195). Biographers of Keynes have certainly provided contradictory versions of the same person.

Roy Harrod's biography of John Maynard Keynes was described by Robert Skidelsky as: "an exercise in covering up and planting false trails" (1983: xxv). In many ways, Harrod's was a late Victorian biography of Keynes, as implied by Lord Skidelsky, and only with time the contradictory faces of Keynes emerged. However, Rod O'Donnell suggested that Skidelsky himself was essentially also guilty of planting false leads, by suggesting Keynes' ethics was essentially private, and somewhat unconcerned with public life (O'Donnell, 1989: 169). O'Donnell denies that claim, and suggests that not only Keynes was concerned with the public good, but also that he was a socialist, or at least a socialist of a certain kind.²

Neoliberals, the followers of Friedrich Hayek, that, to some extent, emerged as a reaction to Keynes' ideas,³ would argue that

² O'Donnell (1991: 176) would go on to argue that neither Donald Moggridge - co-editor of Keynes' *Collected Writings*, and biographer - nor Skidelsky showed any interest in his case for Keynes' brand of socialism, which seems to be the first solid defense of the position that Keynes was indeed a socialist.

³ Neoliberals can be seen as emerging in parallel to Keynesian ideas, as a reaction to the collapse of the Victorian liberal order. Philip Mirowski's definition of neoliberalism as a social movement, a collective, suggests that it goes beyond economic analysis (Mirowski, 2020). On the origins of neoliberalism in the pre-war era, at Ludwig von Mises seminar in Vienna, see Slobodian (2018). It seems that all neoliberals subscribe to some notion that markets, or the price system, do provide, if not an efficient allocation of

he was not a reformed liberal, but simply a socialist (e.g., Fuller, 2019). In this view, socialism is used as a slur to suggest that policies associated with the development of the Welfare State, in the post-war Golden Age of capitalism, were ultimately tainted and doomed to lead to some sort authoritarian dystopia.⁴

Radicals, in turn, have argued that Keynes was not a socialist, but indeed a conservative, since his aim was the preservation of capitalism (e.g., Mann, 2017). In this view, Keynes' concerns with how to save, or reform capitalism, after the excesses of *laissez-faire* led to the verge of collapse, have, not surprisingly, regained significant popularity in the crisis prone first two decades of the 21st century.

A strong case for the view of Keynes as a socialist has been put forward recently by James Crotty, in his book *Keynes Against Capitalism*. He tells us that: "[i]t is almost universally believed that Keynes wrote his magnum opus, *The General Theory of Employment, Interest and Money*, to save capitalism from the socialist, communist, and fascist forces that were rising up during the Great Depression era", but that in his view, that "was not the case with respect to socialism. The historical record shows that Keynes wanted to replace then-current capitalism in Britain with what he referred to as 'Liberal Socialism'" (Crotty, 2019: 1-2). Keynes was a socialist, in this view. But for Crotty this is not a problem or a smear, rather it was a necessary consequence of his abandonment of conventional or mainstream economic thinking during the convoluted and unstable period between the end of the Great War and the coming of the Great Depression.

resources, a more reliable mechanism than governments. As such, some variation of marginalist analysis is always the foundation of neoliberalism. In that sense, as a movement, neoliberals coalesced in the post-war period as the quintessential anti-Keynesians, and the Keynesian embedded liberal order.

⁴ Less judicious authors would argue that Keynes was, if not an outright fascist, at least a fellow traveler. Rothbard (1992: 192) argues that: "it should come as no surprise that Keynes was an enthusiastic advocate of the 'enterprising spirit' of Sir Oswald Mosley, the founder and leader of British fascism, in calling for a comprehensive 'national economic plan' in late 1930. By 1933, Virginia Woolf was writing to a close friend that she feared Keynes was in the process of converting her to 'a form of fascism'." It is worth noticing that among neoliberals the notion was that any incremental increase in government intervention would become a slippery-slope leading inevitably to authoritarianism, either Stalinist communism or fascism. That was the essence of Hayek's *The Road to Serfdom*. Keynesianism was the first step on that long and winding road.

A common premise of this debate is that Keynes's early political views motivated his changing economic views, and that the change in his theoretical views were fundamental to defend his policy stance during the Depression. In other words, what Joseph Schumpeter referred to as Keynes' vision, the pre-analytical ideological stance that precedes formalization of ideas, was central to understand his economic analysis (Schumpeter, 1946).⁵ In this sense, the debate over Keynes's philosophical or methodological views and his political stance are determinant of his economics, and cannot be ignored.

This paper tries to clarify Keynes' political views in light of his main analytical accomplishments in economics. The rest of the paper discusses Keynes' political vision and how it influenced the evolution of his policy stance, which change in the 1920s. The paper also deals with the analytical break in Keynes' work. It will be argued that his changing analytical views do indeed follow the changing circumstances during the Great Depression, but they come quite late, almost at the end of the period, in the early 1930s, after the publication of the *Treatise on Money* (*Treatise* from now on). The relationship between Keynes' revolutionary theory, contained in *The General Theory of Employment, Interest and Money* (*General Theory* from now on)⁶ and his policy views, suggests that they were detached, and his new theory was not required to defend public works. Also, Keynes, who was famous for changing his mind when proven incorrect, as a famous saying attributed to him went, never changed his political stance. He remained a liberal. It was, in fact, socialists, that were quite reluctant to change their analytical views on the functioning of the economy that were forced to adopt a Keynesian outlook. The change in policy preceded the changes in theory, and went hand in hand with a significant degree of stability and persistence in his political outlook.

⁵ In some ways, Schumpeter is the source of Crotty's view when he argues that: "[i]n those pages of the *Economic Consequences of the Peace* we find nothing of the theoretical apparatus of the *General Theory*. But we find the whole of the vision of things social and economic of which that apparatus is the technical complement. The *General Theory* is the final result of a long struggle to make that vision of our age analytically operative" (Schumpeter, 1946: 501).

⁶ Citations of Keynes' work will be from the *Collected Writings of John Maynard Keynes* (CWJMK from now on).

A pragmatic in policy

The decline of England's hegemonic position, and the crisis it provoked during the inter-war period, was central in shaping Keynes' views on the need for new policy responses during the 1920s, and the search for new theoretical foundations for these policy proposals. Crotty (2019) is correct in pointing out that a sense of the changing nature of the capitalism system, one in which the Victorian *laissez-faire* was obsolete, was central to Keynes' vision.

Crotty suggests that starting in 1919 with the publication of his famous *The Economic Consequences of the Peace* and in several books, essays, and pamphlets during the 1920s:

"Keynes's core belief that the West had entered a completely new historical era in which the institutions and policies currently used to regulate economic life were totally inappropriate. He associated himself with the American institutionalist economist John R. Commons's view that Europe and America were currently in transition to a new historical epoch in which the main task was to create a new 'regime which deliberately aims at controlling and directing economic forces'" (Crotty, 2019: 81).⁷

Keynes became a polemicist on public policy during the 1920s, and was willing to think creatively about British economics problems. In particular, it seems that Keynes' growing understanding about the role of debt and deflationary pressures as destabilizing factors, led him away from conventional wisdom. But it cannot be said that Keynes broke with Say's Law, and embraced the idea of Effective Demand, until much later. In other words, the 1920s, that in the United Kingdom were a period of crisis contrary to the United States, certainly created the conditions for Keynes' changing policy views, but it is very clear that at this stage he had not yet abandoned Marshallian economics. The

⁷ It is worth noticing, in light of Crotty's view that Keynes was already breaking with marginalism or neoclassical economics at this stage of the development of his ideas, that Commons the theory of value was quite conventional, in spite of his own understanding of it, and that his brand of Institutionalism was perfectly compatible with neoclassical ideas, being the basis of New Institutional Economics. For that position see McColloch and Vernengo (2023).

project in this period was to advance and complement the ideas in which he had been educated.

Keynes, as it is well-known, was educated in the marginalist ideas of Alfred Marshall and Arthur Cecil Pigou at Cambridge, the main center of neoclassical economics at that time. The neoclassical ideas he learned there suggested that markets produced optimal outcomes, essentially the efficient allocation of resources, and also that distribution provided remuneration according to productivity. In other words, distribution was not the result of class conflict, a position that Keynes would never abandon (Palley, 2023). However, the Cambridge version of neoclassical economics, allowed for market failures and government intervention to minimize them. The version of neoclassical economics that he was brought up with - and one might remember that his father Neville Keynes was a marginalist economist and a Cambridge University administrator - did not enshrine *laissez-faire* in all circumstances. In many ways, the development of the notion of market failure was a Cambridge project, in particular associated, at first, with Marshall's friend and foe in the creation of the Economics Tripos, Henry Sidgwick, and then with his chosen heir for the professorship, Pigou (Medema, 2007).⁸

During Keynes theoretical development, neoclassical economics was still consolidating, but at the same time some critiques of Marshallian economics were already under way. In particular Piero Sraffa, who was close to Keynes, developed a critique of the laws of returns and the Marshallian theory of value. Even though Keynes was aware of these developments, as the editor of the *Economic Journal*, as noted by Gerald Shove, Keynes never spent the five minutes necessary to understand the theory of value (Robinson, 1964: 80). There is no indication that Keynes was troubled with Marshallian theory. However, during the 1920s, Keynes' showed an extraordinary willingness to change his views on policy matters.

⁸ Medema (2009: 54) argues that: "influenced by Sidgwick's philosophical perspective and armed with Marshall's theoretical toolkit, Pigou, Marshall's student and successor in the chair of political economy at Cambridge, proceeded to construct a marginalist analytical framework that shed new light on the problems of market failure and the economic role of government." According to Skidelsky (1983: 210): "Pigou created the subject of 'welfare economics' whose avowed object was to 'make easy practical measures to promote welfare'." Keynes' 1920s project can be seen as similar, but in the field of monetary economics and business cycles, in which he was working alongside other economists of the younger Cambridge generation, notably Dennis Robertson.

The abandonment of *laissez-faire* should be at the top of the list. It is clear that some of the changes were part of his political outlook as a New Liberal, in the tradition of H. H. Asquith, who had already moved the Liberal Party from the Gladstonian Nightwatchman state stance, and promoted a moderate expansion of welfare programs. Keynes was moving beyond those views. He rejected Free Trade, something that he and New Liberals saw as dogma up to the mid-1920s. Marshall had remained a free trader, and had stood against the protectionist heresy that had been associated with Joseph Chamberlain earlier in the 20th century.⁹

Perhaps more famously, Keynes was against the return to the Gold Standard at the pre-war parity level, which as he correctly suspected, would make the recovery considerably more difficult, and would lead to unemployment. In his famous pamphlet on *The Economic Consequences of Mr. Churchill* - who had returned to the Conservative fold in the aftermath of the election of 1924 to become the Chancellor or the Exchequer in charge of the decision to return to gold - Keynes battled the Treasury economists and went against policy orthodoxy.

Further, he was sympathetic to the miners General Strike of 1926, and was against lower wages as a mechanism of adjustment (Clarke, 1988: 166).¹⁰ More importantly, by the 1929 election Keynes was explicitly for a program of public works, in his pamphlet, co-authored with Hubert Henderson, 'Can Lloyd George Do It?', 'published in 1929. However, it is worth noticing that this

⁹ In fact, Skidelsky (1983: 121), regarding Chamberlain's call for managed trade and a system of imperial preferences, notes that: "[l]ike most Cambridge economists (Marshall headed a Free Trade Manifesto published in *The Times* on 15 August 1903 which confidently declared that no unemployment could result from an increase in imports) Maynard was a staunch free trader; in fact free trade was his only political cause before the First World War." In the 1920s, Keynes abandoned policy orthodoxy.

¹⁰ This was perfectly compatible with neoclassical economics, that was still the basis for his *Treatise on Money*, published in 1930. As noted by Clarke (1988: 166): "[i]n the *Treatise* he described an attempt to cut wages as 'a dangerous enterprise in a society which is both capitalist and democratic'. In his private evidence [to the Macmillan Committee] he said that 'for centuries there has existed an intense social resistance to any matters of reduction in the level of money incomes."

would eventually be the position held by Pigou, Keynes' *bête noir* in the *General Theory*.¹¹

It is clear that Keynes had changed his policy views in between the end of the war and the onset of the Great Depression. But even as his policy stance changed, his main theoretical work up to that point, published as he was dealing with the consequences of the worst consequences of the Great Depression, remained firmly based on the kind of neoclassical economics that was still dominant at Cambridge. This is not to say that theoretically he had not moved, that would be an exaggeration. He certainly moved away from the Quantity Theory of Money (QTM), in the Marshallian version that had been dominant within his circles. Richard Kahn notes in his Mattioli Lectures that the *Treatise* was an important break with that tradition, and that is true when referred to the Cambridge monetary tradition (Kahn, 1984).

In the *Treatise*, not only Keynes moved away from the QTM in a Wicksellian direction, with central banks managing the rate of interest as the key policy variable, but, more importantly, Keynes moved in the direction of a Chartalist explanation of the origins of money.¹² Keynes argued that the essence of money lied in its character as a unit of account, which was predicated on the power exercised to determine what was used as such. This resulted from his pioneering and innovative studies on the origins of money, and contrasted with the neoclassical views, developed mostly by Austrian economists (e.g., Carl Menger), on the same subject.

But on one crucial issue, his *Treatise* remained firmly within the conventional wisdom of the time. Up to this point Keynes never

¹¹ Pigou, who was initially for lower wages as a solution for unemployment, came to defend public works during his evidence to the Macmillan Committee. As noted by Richard Kahn, Pigou said that: "[t]he government should put in hand and should encourage local authorities and public utility companies to put in hand enterprises of a useful character, even though they are likely to yield a return substantially below current rates, and even though guarantees of interest involving a cost to the Treasury are necessary" (Kahn, 1984: 194). In the same vein, see Clarke (1988: 179).

¹² Skidelsky (1983: 214) suggests that: "[t]he history of the Keynesian revolution is largely a story of Keynes's escape from the quantity theory of money." This is a problematic proposition, for more than one reason. In the *General Theory*, Keynes actually departed from the views on money developed in the *Treatise*, back to an exogenous money approach. More importantly, the essence of the *General Theory* and the revolution Keynes brought about was to be found on the abandonment of Say's Law and the adoption of the Principle of Effective Demand.

questioned the supposition that the rate of interest acted to bring investment to the level of full employment savings. The adjustment process could imply some level of unemployment in the short run, and policy intervention might be needed if savings exceeded investment. But Keynes accepted the idea of a natural rate of interest, which corresponded to full employment in the labor market. He still accepted Say's Law in the *Treatise*.

A revolutionary in theory

Keynes' theoretical revolution in economics was associated to the notion that markets, under normal circumstances, did not lead to the optimal outcomes presumed by neoclassical analysis. His was not an argument that market failures could be resolved by government intervention, since that was, as it clear from his policy views in the 1920s.¹³ In fact, that was the point of his famously misquoted witticism that "[i]n the long run we are all dead" (CWJMK, vol. IV: 65). Keynes moved from an understanding that *laissez-faire* was *passé*, and that policy intervention was necessary in the face of market imperfections, to one that suggested that the normal functioning of markets did not produce optimal outcomes, and intervention was necessary for that reason. This was a theoretical argument, and that was explicit in the title of the book.¹⁴

In the neoclassical view, a normal position was an optimal position, implying both full employment in the labor market, and full capacity, with investment equalized to savings. For Keynes, normal positions were not optimal. The fundamental issue that led to Keynes' theoretical break through was related to the possible discrepancy between savings and investment, and the mechanism by which the equilibrating process took place.

¹³ While the *Treatise* was seen by Keynes as the consolidation of the former agenda, of the development and the extension of the Marshallian tradition in the monetary field, he was quite explicit about the new revolutionary character of his *General Theory*. In a letter to George Bernard Shaw, Keynes said: "I believe myself to be writing a book on economic theory which will largely revolutionise – not, I suppose, at once but in the course of the next ten years – the way the world thinks about economic problems" (CWJMK, vol. XIII: 492).

¹⁴ The *General Theory* leaves little doubts about his project. He argues that the "main purpose is to deal with difficult questions of theory" (CWJMK, vol. VII: v).

His ideas on effective demand - that suggested that in the long run, with price and wage flexibility, the economic system did not have a tendency to full employment - were not developed until 1932, in the early drafts of the *General Theory* (GT). Ironically, it was Pigou, who pointed out the incompatibility of his policy prescriptions and theory in the *Treatise* (Milgate, 1983: 46).¹⁵ It was the debates within the Circus that led to Keynes' revolutionary theory, which appeared in rudimentary form for the first time in print in 1933, in another pamphlet titled 'The Means to Prosperity.' It was only then that Keynes changed his mind, and developed an analytical argument against the idea that free markets produced efficient outcomes. Unemployment was not a disequilibrium in the short run resulting from some imperfection, but a long run normal situation.¹⁶ Richard Kahn and James Meade developed the crucial concept of the multiplier. But Keynes had already hinted at the notion in a previous pamphlet, and Kahn (1984: 91) argues that he was inspired by Keynes' 1929 pamphlet.

More importantly, it was only with Keynes that the adjustment of the level of income became an instrument of a theory of output and an alternative to Say's Law. In that sense, there is little doubt that Keynes was - together with Michal Kalecki that developed the idea independently - the originator of the Principle of Effective Demand. Kahn himself was very clear that Schumpeter's well-known argument that he deserved co-authorship of the *General*

¹⁵ As noted by Milgate: "Pigou explicitly pointed out in his comments in the autumn of 1929 that the *Treatise* analysis (using the Fundamental Equations) of the effects of a discrepancy between planned saving and planned investment involved a presumption of unchanging output" (Ibid.). As Milgate further notes: "orthodox 'classical' economists found no difficulty in allowing for output changes in a disequilibrium process as long as it was maintained that in the long run variations in the rate of interest (whether they ensued 'naturally' or had to be induced by conscious acts of monetary policy) were required to restore an equilibrium between full-employment saving and planned investment whenever the two were unequal" (Ibid.: 47). Patinkin (1994: 1145) argues that Ralph Hawtrey's comments on the *Treatise*, before its publication, that were not taken into account by Keynes, also suggested that Keynes' 'Fundamental Equations' contained no theory of output.

¹⁶ Keynes was clearly concerned with long run normal positions of the economy. He said in the *General Theory* that: "it is an outstanding characteristic of the economic system in which we live that, whilst it is subject to severe fluctuations in respect of output and employment, it is not violently unstable. Indeed it seems capable of remaining in a *chronic condition of sub-normal activity for a considerable period without any marked tendency either towards recovery or towards complete collapse*. Moreover, the evidence indicates that full, or even approximately full, employment is of rare and short-lived occurrence" (CWJMK, vol. VII: 249-250; italics added).

Theory was exaggerated, even if it is true, to some extent, as Geoff Harcourt noted, that the influence of Kahn was crucial (1994: 11).¹⁷ As Patinkin (1993: 651) notes:

"...the purpose of Kahn's article was to provide a rigorous basis for Keynes and Henderson's contention in their 1929 Can Lloyd George Do It? that an increase in public-works expenditures would generate an increase in income and hence in the savings needed to finance it, so that there was no basis for the Treasury View that such an increase in government investment would simply be offset by a corresponding decrease in private investment and therefore not generate any net increase in employment."

But at this point, Kahn, like Meade and Keynes, also believed that an increase in prices associated with higher investment might have a positive effect on savings, as a result of a forced savings type mechanism (Ibid.). The use of employment, rather than income, in Kahn's work, and in Keynes' pamphlet in favor of David Lloyd George's proposals, resulted from the fact that they did have employment figures, but no measure of output as a whole was available at that time. The novelty in Keynes' analysis was the possibility of unemployment equilibrium. Variations of the level of output, rather than the interest rate, equilibrated savings to investment and that would not be, other than by coincidence at the full employment level.¹⁸

¹⁷ Keynes was very aware of the originality of his ideas, and tended to exaggerate it, something that was off putting to Pigou, who thought he was too dismissive of Marshall. But, in a sense, Keynes was correct in calling everyone that came before as classical, since both classical and neoclassical authors did uphold some version of Say's Law. However, Keynes was aware of the distinction and he even made it clear in the *General Theory*. He said there that: "[u]nlike the neo-classical school, who believe that saving and investment can be actually unequal, the classical school proper has accepted the view that they are equal" (CWJMK, vol VII: 177). In other words, for the old classical political economists Say's Law was an identity without and adjustment mechanism, while neoclassicals suggested that the rate of interest was the equilibrating variable.

¹⁸ Keynes argued, regarding the equilibration of investment and savings, that the: "novelty in my treatment of saving and investment consists, not in my maintaining their necessary aggregate equality, but in the proposition that it is, not the rate of interest, but the level of incomes which (in conjunction with certain other factors) ensures this equality" (CWJMK, vol. XIV: 211). In Kahn's analysis there is also an equilibration of savings and investment, but that was not yet seen as an alternative theory of output, or a counter to Say's Law.

The point of the book was that, even with price and wage flexibility, the economic system did not tend to full employment. The fact that the Keynesian Revolution led to a reinterpretation of Keynes on the basis of rigid wages, the inability of interest rates to adjust the system to full employment under certain conditions or some other kind of imperfection in more modern versions of mainstream Keynesianism is somewhat ironic. The full "escape from habitual modes of thought and expression" (CWJMK, vol. VII: xvi) would require an abandonment of the marginalist theory of distribution (Garegnani, 1978-79). But this was not fully clear at the time of the publication of the *General Theory*. His arguments in chapter 19 were based on the destabilizing consequences of price and wage flexibility. In particular, the notion that the effects of price and wage flexibility on debt and income distribution would preclude the system to return to full employment.¹⁹

It would be only with the advent of the capital debates - in which members of the Circus were again crucial and led the charge, in this case Joan Robinson and Piero Sraffa - that it would be possible to show the full implications of the acceptance of the marginalist theory of distribution to the Keynesian Revolution in theory. But there is little doubt that the Principle of Effective Demand can be interpreted without the neoclassical elements, and, in fact, it is more coherent with Keynes' project of proving that the system is persistently fluctuating around a suboptimal level of output and employment, if that is the case.²⁰ Keynes' arguments

¹⁹ Keynes has his own version of what Irving Fisher called the debt-deflation effect. He said: "if the fall of wages and prices goes far, the embarrassment of those entrepreneurs who are heavily indebted may soon reach the point of insolvency, - with severely adverse effects on investment" (CWJMK, vol. VII: 264).

²⁰ It is very often argued that Keynes' ideas in the *General Theory* are restricted to the short run. In a sense, that is correct, since Keynes treated investment as an exogenous component of demand, and did not deal with the effects of investment on productive capacity. Accumulation was not discussed in the *General Theory*. However, there is a sense in which his work was decidedly concerned with long run normal positions. Keynes very clearly suggested his work applied in normal conditions, when persistent forces had worked out its effects, and rigidities and other imperfections were not relevant. This suggests that while he broke with Say's Law, he accepted the traditional long run method of economics of both Ricardian and Marshallian economics. But the notion of a marginal efficiency of capital negative related to the rate of interest left a channel for the return of neoclassical results. Of course, as noted by Garegnani (1979: 73): "[t]his defence of traditional theory does not appear to be adequately argued, but the very fact that it could be put forward serves to indicate the

would only be revolutionary, as he thought they were, if they prevailed as part of the normal working of the capitalist society.

The book was not written, as one would expect of a book published in 1936, to promote policies to save capitalism from itself. In the *General Theory*, Keynes was somewhat unconcerned with the practical problems and there was little about fiscal policy and public works beyond some vague discussion about the 'socialization of investment' in the concluding notes.

Keynes the political pamphleteer and policy wonk wanted to save capitalism. Keynes the theoretical revolutionary wanted to promote a dangerous idea, one that would influence: "the ideas which civil servants and politicians and even agitators apply" (CWJMK, vol. VII: 384). He wrote the *General Theory* to influence the political outcomes in the distant future, because, in his view: "the ideas of economists and political philosophers... are more powerful than is commonly understood. Indeed the world is ruled by little else" (Ibid.: 383).

Keynes wanted a revolution in ideas. In that his work contrasted with Karl Marx, another thinker whose ideas are often seen as revolutionary. While Marx embraced, in a critical manner, the dominant Ricardian political economy of his time in order to show that capitalism was ultimately doomed, Keynes tried to break with the conventional marginalist theories of his teachers to demonstrate that *bourgeois* society could endure.

A moderate in politics

Keynes changed his policy views during the 1920s, moving away from the *laissez-faire* stance of his youth. What drove Keynes to change his policy perspective was his political concern with unemployment. The debates on the policies needed to deal with unemployment, in particular after the Depression, highlighted the limitations of the conventional wisdom, and of Keynes' own ideas, fairly orthodox up to this point. As he tried to make theoretical sense of the Depression, an alternative theory emerged from debates with fellow academics and policy makers. But Keynes did not change

lacuna left by Keynes in his long-period analysis of the rate of interest; a lacuna which had to be filled, either by a return to the traditional theory or by its more radical rejection." It is clear that Keynes wanted to reject the notion of a natural rate of interest.

his analytical framework to defend a more activist state policy. Clarke (1991: 163) is correct when he argues that: "[t]he suggestion that he wrote *The General Theory* because he had an axe to grind in immediate policy arguments is wide of the mark."²¹

Keynes did enjoy the influence of working in the Treasury during World-War I, and the possibility of affecting policy outcomes. As Peter Clarke said: "[Keynes] was an inveterate political animal. Like Marx, he thought that it was not enough for philosophers to understand the world: the point was to change it" (Clarke, 1991: 149). The question is then why during the 1920s, when his policy views were changing, did Keynes not embrace the rising Labour Party as the Liberal Party collapsed. The question is why did Keynes remain in the political wilderness, as "a Cassandra who could never influence the course of events in time" (CWJMK vol. IX: xvii), throughout the 1920s and most of the 1930s, essentially until the war forced the establishment to bring him back into the fold. It seems that, in order to change the world, or at least British policies, Keynes reluctantly sided with the New Liberalism, represented by Lloyd George in the 1920s, rather than the Labour of Ramsey MacDonald.

On fiscal matters both Conservatives and Labour accepted what would be eventually known as the Treasury view. Churchill had taken the Treasury advise, even if he later regrated it, on the return to the Gold Standard. Philip Snowden, the Labour Chancellor of the Exchequer was also an ardent defendand of the Treasury View, as would be his eventual substitute, Neville Chamberlain, when MacDonald formed a national government. Both parties were unable or unwilling to break with sound finance policies. As Clarke (1991: 153) reminds us: "it was the Liberals, historically identified with the free market, who took the most radical line."

Keynes stood with Liberals not just because "Lloyd George... had no doctrinal commitment to sound finance" (Clarke, 1991: 154), but also, at least in the 1929 election, because he thought they had a shot at winning. By 1934, he had abandoned Lloyd George and Liberals, the party that is, because their chances had

²¹ This suggests that Crotty (2019: 161) is incorrect when he argues that Keynes wrote the *General Theory*: "to convince economists and members of Britain's intellectual, business, and political elites that the theory that informed their economic worldview and provided essential support for the disastrous conservative economic policies of the era was fundamentally flawed."

evaporated.²² But he never embraced Labour, even though New Liberals like him had a lot in common with Fabian Socialists - many of whom remained closer to a neoclassical understanding of the economy than Keynes. To a great extent, his refusal to join Labour, as he noted in his address to the Liberal Summer School in 1925, was because Labour was a class party, and, as he put it: "the class is not my class... the class war will find me on the side of the educated *bourgeoisie*" (CWJMK, vol. IX: 297).

Clarke (1978: 65) explains that the main difference between New Liberals and Fabian Socialists was that the former were moral reformists concerned with gaining the hearts and minds of the people, while the latter were mechanical reformists believing that the state could engineer reform from above. Keynes remained closer to the moral reformism of New Liberals, like Leonard Hobhouse, than to the views of Fabian Socialists, like George Bernard Shaw.

This is relevant since several authors have often suggested that the problem with Keynes' vision was his amorality.²³ In a more attenuated version, that is Skidelsky's position when he argues that Keynes' ethics was disconnected from public concerns. Yet, as Joan Robinson famously reminded us, Keynes turned Mandeville's morality dictum upside-down, suggesting that private virtue (thriftiness) was a public vice, leading to unemployment (Robinson, 1964: 77). For Keynes, the capitalist system needed a break with Victorian *laissez-faire* principles, but not a new

²² It is worth noticing that Keynesian ideas did, in fact, attract the support of Oswald Mosley, the champion of the more radical proposals in the Labour cabinet. But as much as Keynes broke with Lloyd George and Liberals, in particular after publishing a scathing biographic sketch of him in his *Essays on Biography*, he also: "broke with Mosley once his New Party displayed fascist tendencies" (Clarke, 1991: 163).

²³ Rothbard (1992: 173) provides an example of this kind of view. He says, regarding Keynes' membership in the Apostles undergraduate group, that the: "[t]wo basic attitudes dominated this hermetic group under the aegis of Keynes and Strachey. The first was their overriding belief in the importance of personal love and friendship, while scorning any general rules or principles that might limit their own egos; and the second, their animosity toward and contempt for middle-class values and morality. The Apostolic confrontation with bourgeois values included praise for avant-garde aesthetics, holding homosexuality to be morally superior (with bisexuality a distant second), and hatred for such traditional family values as thrift or any emphasis on the future or long run, as compared to the present. ('In the long run,' as Keynes would later intone in his famous phrase, 'we are all dead.')." This is a clear misconception about the meaning of the phrase and Keynes ethical preoccupations.

morality.²⁴ There is something to be said for Roy Harrod's notion about the centrality of the presuppositions of Harvey Road, Keynes' birth place at Cambridge, representing the ethical principles by which his parents raised him, and that put public good at the center of his ethical concerns.²⁵

Keynes also thought that many of the ideas of some members of Labour, the ones he actually referred to as socialist (CWJMK, vol. IX: 309), were congenial to his own. Some kind of collaboration between Labour and New Liberals like him was necessary. Clark (1988: 81) argues that: "[w]hen he spoke on politics, he did so as a Liberal of the left, hopeful of co-operation between Labour and a Liberal party."

Keynes certainly advocated pragmatically for some middle course between *laissez-faire* capitalism and socialism (O'Donnell, 1989: 325). For example, in his letter to Hayek, after reading the latter's *Road to Serfdom*, he said:

"You admit here and there that it is a question of knowing where to draw the line. 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. In a sense this is shirking the practical issue. It is true that you and I would probably draw it in different places. I should guess that according to my ideas you greatly underestimate *the practicability of the middle course*. But as soon as you admit that the extreme is 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 you are necessarily launched on the slippery path which will lead you in due course over the precipice" (CWJMK, vol. XXVII: 386-87; italics added).

Not only Keynes rejected the fundamentalist argument that only extreme *laissez-faire* was possible or compatible with liberal principles, but also, he noted that he wanted more rather than

²⁴ He told Hayek that: "what we need is the restoration of right moral thinking – a return to proper moral values in our social philosophy" (CWJMK, vol. XXVII: 387). But he also accused him: "of perhaps confusing a little bit the moral and the material issues" (Ibid.).

²⁵ That is essentially the view taken by O'Donnell (1989) and more recently by Konzelmann et al (2021).

less economic planning (Ibid.: 387). Yet Keynes disagreed with socialists on where exactly to draw the line between markets and planning.²⁶ In some ways, it is unclear that he would draw the line in a way that could be perceived as further to the right than Labour. Keynes thought that his radical proposals were in many ways to the left of Labour and Fabian Socialism. He said that:

"I am sure that I am less conservative than the average Labour voter; I fancy that I have played in my mind with the possibilities of greater social changes than come within the present philosophies of Mr. Sidney Webb, Mr. Thomas, or Mr. Wheatley. The republic of my imagination lies to the extreme left of celestial space. Yet—all the same—I feel that my true home, so long as they offer a roof and a floor, is still with the Liberals" (CWJMK, vol. IX: 308-309).

But it is also very clear, in spite of the revisionist efforts of O'Donnell and Crotty, that Keynes remained a liberal and critical of socialist views.²⁷ In fact, O'Donnell (1999: 169-170) provides a quick list of the reasons why Keynes was not a socialist.²⁸ Keynes brand of socialism was not Marxist, which he considered beyond the pale, did not put class analysis at the center of social conflicts, rejected the revolutionary road to power, was against Soviet centralized style planning, public ownership of the means of production, and had no clear criteria for social justice (Ibid.).²⁹ As noted by O'Donnell, Keynes thought

²⁶ Keynes thought that in order to preserve the kinds of liberties that he, and allegedly Hayek too, valued, more government, rather than less, intervention was needed. As he noted: "[w]hat we need therefore... is not a change in our economic programmes, which would only lead in practice to disillusion with the results of your philosophy; but perhaps even the contrary, namely, an enlargement of them" (Ibid.: 387).

²⁷ It would make more sense to try to specify the nature of Keynes' liberalism, rather than his particular brand of socialism, as O'Donnell did in his earlier work (O'Donnell, 1989: 316-322).

²⁸ The use of the term liberal socialism, by Keynes, should be taken with a grain of salt, since both terms, socialism and liberalism, are semantically saturated. One can take even less seriously protestations that: "the evidence shows he was a socialist from at least 24 October 1907 onwards", because in a letter to Lytton Strachey, the following day Keynes said: "Mr. Bernard Shaw converted us all to socialism last night" (Fuller, 2019: 1655). This proposition has the precision of Bishop Usher's dating of earth's age on the basis of the scriptures.

²⁹ In this respect, Palley (2023: 3) also argues, but in a critical perspective, that: "the 'original sin' of Keynesian economics which was Keynes' denial of conflict in capitalist economies." That is, in turn, the result of Keynes' won

that: "society, acting through the state, exercised a degree of conscious control over its material and spiritual destiny", but that hardly made him a socialist (Ibid. 170).

At a minimum a socialist would be for the significant transformation, if not the abandonment, of the capitalist system. Crotty (2019: 78) recognizes that what: "Keynes wanted to preserve was an economic system that would sustain Britain's existing social, cultural, and political way of life." Konzelmann et al. (2021: 592) also argue that Keynes was against: "a particular kind of capitalism: one in which there is no concern for the public interest." But the society that Keynes was trying to preserve was essentially a *bourgeois* capitalist society.³⁰

Liberalism, one might add, spoke to Keynes political and social outlook in ways that Labour or socialism never did. He was an elitist, the product of Eton and King's College, Cambridge, and a member of the Apostles and the Bloomsbury group. But he was no conservative afraid of change and experimentation, and it is that openness to experimentation that allowed him to be to the left of Labour and socialists, and that endeared the New Deal and Franklin Delano Roosevelt, who shared that characteristic, to him. More specifically, Keynes did understand that austerity would be ruinous for capitalism. Perhaps, the confusion about Keynes politics arises from the fact that, eventually, both Labour in England, and socialists in general, came to realize that Keynes was right.³¹ Keynes was never a socialist, but socialists eventually converted to Keynesianism.

flawed understanding of capitalism. In many ways, this is tied to his acceptance of some elements of the marginalist theory of distribution.

³⁰ Keynes was very explicit that the society he wanted to preserve was a bourgeois one. He said on the Russian socialist experiment that he did: "not think that it contains, or is likely to contain, any piece of useful economic technique which we could not apply, if we chose, with equal or greater success in a society which retained all the marks, I will not say of nineteenth-century individualistic capitalism, but of British bourgeois ideals" (CWJMK, vol. IX: 267; italics added).

³¹ Clarke (1991) notes that Hugh Dalton, the first Chancellor of the Exchequer in Clement Atlee's government, was an avowed anti-Keynesian, and only converted in his fourth and last budget. However, paradoxically, when he did, his concern was inflation and the: "Keynesian approach was directed chiefly to the problem of keeping demand down, not up" (Ibid.: 187).

Concluding remarks

Keynes was an iconoclast that broke the social rules of Victorian society, still prevalent in the early years of his life. At the same time, he was a member of the establishment and representative of the elites trying to preserve the socio-economic *status quo*. From the time of his service at the Treasury during World War I he was involved in the central questions of British economic policy. Sometimes as an insider, and sometimes as an outsider, and, from the publication of his pamphlet on the Versailles Treaty, always an influential one.

As a social observer, by the 1920s, he had understood that the *laissez-faire* Victorian capitalism could not be saved and a new world had emerged. In that new world, his liberal endeavor was to preserve the *bourgeois* values of the British society in which he was brought up. His policy prescriptions were supposed to promote, at the domestic level, full employment in the face of the rising tide of fascism and communism, both of which he abhorred, and avoid international financial instability. For that he had to think deeply about monetary matters, but did not abandon the mainstream Marshallian theory in which he was educated.

The process of rethinking economic policy, and trying to justify it with relatively conventional theories, made the theoretical limitations of marginalism clear. He came up with a revolutionary conception of the functioning of the economy in the early 1930s. His notion of effective demand was truly revolutionary, but was not developed to defend the policy positions he had already been defending. In many ways, his large influence within the profession, for decades after his death, was possible because the mainstream could reabsorb his policy proposals within a relative unchanged theoretical framework, by appealing to rigidities and other market imperfections.

The coming of World War II, and the prominent position that Keynes had during it managing the economic problems associated with the war effort, moved him away from theoretical discussions. But if the neoclassical synthesis might have not been to his taste, as one might assume from the views of his main disciples, Joan Robinson and Richard Kahn, it is clear that the middle-way policies of the post-war era would have met his approval. But at no point did Keynes rethink his aversion to class politics, his "moderately conservative" defense of the *status quo*, in particular on the

issues of the ownership of the means of production and of individual initiative (CWJMK, vol. VII: 377-78). Towards the end of his life, Keynes remained a pragmatic experimentalist in policy issues, trying to reorganize the international monetary system at Bretton Woods, a radical in theory, accepting some of the elements of functional finance developed by Abba Lerner, and a moderate in politics, forging what would be the basis of the middle-way politics during the emerging Cold War.

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