

# **Between the Leviathan and the *Laissez-Faire*: Comparing the Political Philosophy of Keynes and Hayek**

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## **1) Introduction**

Conventional wisdom regards Keynes and Hayek as belonging to the liberal tradition. Indeed, both authors have systematically proclaimed their liberalism in their works. However, when one tries to identify what type of liberalism they profess, one discovers radically different stances in some areas.

This paper contrasts Keynes's and Hayek's definitions of their own political views. It presents what type of liberalism they embrace through the question "what type of political animal?" The answer will lead to distinct attitudes to liberal values. Also, the role of government in the economy is also investigated. The scope assigned to the State in their political philosophy reveals a strong antagonism between the two approaches.

Not only the emphases are distinct, but also their sources of inspiration are different. In a gradient of liberal ideas, one could roughly say that while Hayek embraces a "right-liberalism", Keynes champions a "left-liberalism".

The paper starts with Keynes's ideas about the "New Liberalism", a quite reformulated approach of the liberal view, for in it the State has an important and crucial role to perform. Then, it presents Hayek's basic ideas on the essence of a genuine liberal attitude, as contrasted to both conservatism and the "rationalistic" liberal type he abhors. Finally, the paper briefly explores the most important differences between Keynes's and Hayek's liberal political philosophies.

## **2) Keynes and the "New Liberalism"**

Keynes does not have a book or an extensive discussion of political philosophy (as Hayek has). Thus, the political philosophy which permeates his works must be construed from fragmented sources. This section tries to piece together the fragments of his views, drawing basically on his ideas about political parties (the context of reference being the

British political parties' scene of the 1920s) and his analysis of the role of the State in modern capitalist economies.

Keynes's ideas on the subject can be found in various articles, papers and monographs. The present discussion will make use of three articles of his book *Essays in Persuasion* (1931): "Am I a Liberal?" (August 1925), "Liberalism and Labour" (February 1926), and "The End of Laissez-Faire" (June 1926). Also, "philosophical" parts of *The General Theory of Employment, Interest and Money* (1936) will be used to disclose Keynes's political views.

### *"Am I a Liberal?"*

In "Am I a Liberal?" Keynes (1925) states that if somebody is born a "political animal" (p. 296), then one should try to fit in the spectrum of existing formal political parties. Political animals, despite the difficulties of finding an appropriate home and food to be satisfied, need a political party to appease their instincts and proclivities.

Looking at the British political parties of his time, Keynes discerns three possible options: the Conservative, the Labour, and the Liberal parties. Keynes discards the Conservative Party, for it offers "neither food nor drink – neither intellectual nor spiritual consolation"; it is capable of promoting "neither my self-interest nor the public good" (Keynes, 1925, p. 296); it is not capable of creating and sustaining a civilised life and an ideal society. In other words, it is an empty and hopeless party.

Nevertheless, Keynes observes that there is not a "real difference of policy or of ideals, which now separates the progressive young Conservative from the average Liberal" (Keynes, 1925, p. 298). He complains that the Conservative Party's main concern should be the development of "a version of individualistic capitalism adapted to the progressive change of circumstances" (Keynes, 1925, p. 299). It should also try to create "novel measures for safeguarding capitalism" from socialism and replace the "old-fashioned capitalism" (Keynes, 1925, p. 299) by another, renewed one.

As to the Labour Party, Keynes does not believe it to be its most preferred option as well. It is a class party, and for sure not of his own class. His individualism would not allow him to sit with its members: "If I am going to pursue sectional interests at all, I shall pursue my own" (Keynes, 1925, p. 297). A party with a mentality strongly grounded on the class

struggle is not what Keynes is looking for: “the *class* war will find me on the side of the educated *bourgeoisie*” (Keynes, 1925, p. 297).

However, the main reason which prevents Keynes from choosing the Labour Party is his assumed elitism, that is, his view that an increasing and highest degree of democratisation of the party machine decisions then observed will lead to mistakes. Having argued that “in the future, more than ever, questions about the economic framework of society will be far and away the most important of political issues”, and that “the right solution will involve intellectual and scientific elements which must be above the heads of the vast mass of more or less illiterate voters” (Keynes, 1925, p. 295), Keynes sees the Labour as a party more inclined to make decisions to satisfy the passions and instincts of the masses than to promote the public good. The Labour Party’s decisions are dominated by “those who do not know *at all* what they are talking about” (Keynes, 1925, p. 297). Besides, it is often threatened by its extreme left wing faction, the “Party of Catastrophe”: “Jacobins, Communists, Bolsheviks, whatever you choose to call them” (Keynes, 1925, p. 299).

This Party of Catastrophe has its related “Policy of Catastrophe”. Keynes believes that its philosophy is strong within the whole Labour Party: “this is the party which hates or despises existing institutions and believes that great good will result merely from overthrowing them – or at least that to overthrow them is the necessary preliminary to any great good” (Keynes, 1925, p. 299). This party is fascinated with the irrational instincts of the masses such as “passions of malignity, jealousy, hatred of those who have wealth and power (even in their own body), ill consort with ideals to build up a true social republic” (Keynes, 1925, p. 300).<sup>1</sup>

After assessing these two parties, Keynes then addresses the following question: “What then do I want Liberalism to be?” (Keynes, 1925, p. 300). He believes that the only party which could incorporate the ideal of a “New Liberalism” is the Liberal Party. This party should also bring together the Conservative left wing – “‘the best type’ of educated, humane, Conservative free traders” – and the Labour right wing – “‘the best type’ of educated, humane, socialistic reformers” – both endowed with “moral and intellectual respectability”.

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<sup>1</sup> By “a true social republic” Keynes means a Platonic utopian society, the enhancer of the enjoyments of the good life, which he thought could be created through the power of ideas, in particular his “new wisdom”, and protected by Platonic Guardians (an enlightened elite) or the Philosopher King. For extensive discussion on this issue, see Fitzgibbons (1988), O’Donnell (1989) and Skidelsky (1983, 1992).

The “philosophy and practice” of this new, reconstructed Liberal party “shall be disinterested as between classes, and shall be free in building the future both from the influences of diehardism and from those of catastrophism, which will spoil the constructions of each of the others” (Keynes, 1925, p. 300).

This party has to abandon the historic issues of Liberalism such as the old-fashioned individualism and *laissez-faire*. These doctrines were important for capitalism of the previous century; nevertheless, changing contemporary environment requires new approaches.

For Keynes, there are five contemporary, practical questions which society has to face: peace, government, sex questions, drug questions, and economic questions. His main points are: pacifism and disarmament; decentralisation of organs of public administration; women’s emancipation, policies on birth control and the size of population; control of drinking and gambling. Among these matters, Keynes is particularly worried about the economic ones, “the largest of all political questions” (Keynes, 1925, p. 303).

Keynes makes reference to John Commons’s classification of economic stages (the three eras of scarcity, abundance and stabilisation) and lays particular emphasis on the latter. This taxonomy allows him a further demarcation of priorities and proper definition of his liberal alternative.

The era of scarcity is characterised by “the minimum of individual liberty and the maximum of communistic, feudalistic or governmental control through physical coercion” (Keynes, 1925, p. 304; Keynes’s quotation from Commons). This period comprises economic life up to circa the sixteenth century. By its turn, the era of abundance is characterised by “the maximum of individual liberty, the minimum of coercive control through government, and individual bargaining takes the place of rationing” (Keynes, 1925, p. 304). It has lasted from seventeenth to nineteenth century, with both historic Liberalism and *laissez-faire* being its utmost expression.

These two eras were superseded by the period of stabilisation where one finds “a diminution of individual liberty, enforced in part by government sanctions, but mainly by economic sanctions through concerted action, whether secret, semi-open, open, or arbitral, of associations, corporations, unions, and other collective movement of manufacturers, merchants, labourers, farmers, and bankers” (Keynes, 1925, p. 304). The extreme political consequences of this process are Fascism and Bolshevism.

As historic, old liberalism – “*laissez-faire* individualism and the free play of economic forces” (Keynes, 1925, p. 304) – and socialism supply no “middle course”, Keynes believes he is in a position to offer his “New Liberalism”:

The transition from economic anarchy to a regime which deliberately aims at controlling and directing economic forces in the interests of social justice and social stability, will present enormous difficulties both technical and political. I suggest, nevertheless, that the true destiny of New Liberalism is to seek their solution (Keynes, 1925, p. 305).

Yet, this modern liberalism needs to face some old fashioned misconceptions. The orthodox policies, which are grounded in the assumption that economic adjustments are spontaneously reached through the free play of the forces of supply and demand in an environment of free competition and of mobility of capital and labour, although important and efficient to nineteenth century capitalism, were overcome by the conditions of modern capitalism. They need to be replaced by “new policies and new instruments”, by a “new wisdom for a new age”. For Keynes, “modern ideas and modern institutions” require “changing our technique or our copybook maxims” (Keynes, 1925, p. 306):

Half the copybook wisdom of our statesmen is based on assumptions which were at one time true, or partly true, but are now less and less true day by day. We have to invent new wisdom for a new age. And in the meantime we must, if we are to do any good, appear unorthodox, troublesome, dangerous, disobedient to them that begat us. In the economic field this means, first of all, that we must find new policies and new instruments to adapt and control the working of economic forces, so that they do not intolerably interfere with contemporary ideas as to what is fit and proper in the interests of social stability and social justice (Keynes, 1925, pp. 305-306).<sup>2</sup>

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<sup>2</sup> Keynes’s emphasis on social justice, that is, to consider it not a secondary or subordinate value in an arbitrarily pre-established hierarchy, is one of the aspects which differentiates his political views from that of Hayek. In this sense, it is difficult to agree with statements like “redistribution of wealth and income was never a passion to him” or that Keynes had a “relative indifference to questions of equality and social justice” (Skidelsky, 1989, pp. 145-146). It will be seen later that Hayek stresses liberty as the fundamental liberal value – and therefore Skidelsky’s statement would be more adequate to Hayek’s liberalism.

This happens mainly due to the fact that such policies have to face the obstacles to the free play of market forces which springs from the powerful action of trade unions. According to Keynes, “the trade unions are strong enough to interfere with the free play of the forces of supply and demand, and public opinion ... supports the trade unions in their main contention that [they] ought not to be the victims of cruel economic forces which *they* never set in motion” (Keynes, 1925, p. 305). Effective policies have thus to adapt to this new reality.

Keynes’s thoughts about politics, in particular the genuine, representative party of this New Liberalism, are again presented and reinforced in his article “Liberalism and Labour” (Keynes, 1926a). After discarding again any political commitment to the Conservatives – “I do not wish to live under a Conservative government for the next twenty years”<sup>3</sup> – Keynes observes that “the progressive forces of the country are hopelessly divided between the Liberal Party and the Labour Party” (Keynes, 1926a, p. 307). Despite that, a “progressive” liberalism is an ideal to be politically constructed in order to avoid disaster.

Keynes looks at the political parties of the time and regrets that the Liberal Party is probably going to an end, and that must be firmly avoided. He stresses that without the Liberals the “progressive cause” (p. 308) would be weakened; thus, it is good politics to resist it.

Again, Keynes does not feel at ease in the Labour Party. Although he states that “I am less conservative in my inclinations than the average Labour voter”, or that “[t]he republic of my imagination lies on the extreme left of the celestial space” (Keynes, 1926a, p. 309), that is, that he holds as many “Labour” values as many Labour supporters, his political views are truly attached to those of the Liberals.

Re-elaborating on his previous approach, Keynes sees the Labour Party with three different political views: the Trade Unionists, the Communists, and the Socialists. Only the latter, “who believe that the economic foundations of modern society are evil, yet might be good” (Keynes, 1926a, p. 309), could be considered his allies, to the extent that they make more explicit their paths and goals.

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<sup>3</sup> Curiously enough, almost sixty years later Hayek employed the same cabalistic number to express a quite different opinion: “Hayek’s best wish for the British economy in 1985 was another twenty years of Mrs. Thatcher’s Conservative government (see *The Times*, Thursday 9 May 1985, p. 11)” (Steele, 1993, p. 238, n. 11).

From the point of view of the Liberals, there is also a faction with constructive concerns and “similar tendency of ideas”: “Constructive thinkers in the Labour Party, and constructive thinkers in the Liberal Party, are trying to replace [ancient doctrines] with something better and serviceable” (Keynes, 1926a, p. 309). The constructive thinkers of the Liberal Party should be those whose political views are not in terms of “capitalism *versus* socialism”, as the die-hard section believes, but rather they should be concerned with their “historic mission”: “The Liberal Party should be not less progressive than Labour, not less open to new ideas, not behindhand in constructing the new world. ... Great changes will not be carried out except with the active aid of Labour. But they will not be sound or enduring unless have first satisfied the criticism and precaution of Liberals” (Keynes, 1926a, p. 311). To avoid Labour’s “sentimental ardours”, the Liberals’ “coolness of temper” is needed.

This philosophy of the “third way” which permeates Keynes’s political beliefs and what he deems to be the true requirements of practical politics is briefly expressed in the following manner:

The political problem of mankind is to combine three things: economic efficiency, social justice, and individual liberty. The first needs criticism, precaution, and technical knowledge; the second, an unselfish and enthusiastic spirit, which loves the ordinary man; the third, tolerance, breadth, appreciation of the excellencies of variety and independence, which prefers, above everything, to give unhindered opportunity to the exceptional and to the aspiring. The second ingredient is the best possession of the great party of the proletariat. But the first and third require the qualities of the party which, by its traditions and ancient sympathies, has been the home of economic individualism and social liberty (Keynes, 1926a, p. 311).

In sum, in “Am I Liberal?” and “Liberalism and Labour” Keynes is mainly concerned with practical politics, in an attempt to clarify which political option is the most adequate to his New Liberalism. By doing this, he outlines his political philosophy at each stage of his arguments. Nevertheless, it is in his famous essay “The End of *Laissez-Faire*” (Keynes, 1926b), published as a pamphlet in July 1926, that Keynes develops in a more detailed way some ideas of his alternative liberalism, in particular on the role of the State.

*“The End of Laissez-Faire”*

The essay “The End of *Laissez-Faire*” can be considered Keynes’s first systematised attempt to provide a wider elaboration of political philosophy.<sup>4</sup> Thus, it is correct the statement that “had he lived longer, Keynes would surely have been tempted to embed his economic theory (which came later) in a culminating work of political and social philosophy to rival and confront Hayek’s *Constitution of Liberty*” (Skidelsky, 1992, p. 229).<sup>5</sup> In this essay, one can find the seeds of such undertaking, with which Keynes could not proceed.

In “The End of *Laissez-Faire*”, a subtle change of tone can be perceived and even Keynes’s words seem to acquire new meanings. One can find expressions like “the directive influence of organised society as a whole” (Keynes, 1926b, p. 275), “state action to regulate the value of money, or the course of investment, or the population” (p. 277), “organisation of socialised production” (p. 286), “coordinated act of intelligent judgement” (p. 292), “possible improvements in the technique of modern capitalism by the agency of collective action” (pp. 292-293), and “reforms in the techniques of capitalism, which might really strengthen and preserve it” (p. 294). Yet his main aim is to show the inadequacies of the old liberalism and the new role the State must play in the contemporary world in order to safeguard capitalism.

The paper starts with a presentation of the philosophical, intellectual and historical background of the ideas which gave risen to individualism and *laissez-faire*. Nearly half of the essay is used to trace the historical path and to expose the general principles upon which these doctrines were established.

A basic idea is that “the individualist invokes the love of money, acting through the pursuit of profit, as an adjutant to natural selection, to bring about the production on the greatest possible scale of what is most strongly desired as measured by exchange value” (Keynes, 1926b, p. 284). This doctrine rests upon two main assumptions: the existence “of conditions where unhindered natural selection leads to progress”, the other being “the

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<sup>4</sup> In this respect, his unpublished undergraduate paper on Burke, “The Political Doctrines of Edmund Burke” (1904), should also be kept in mind. For critical discussions of the paper on Burke, see Skidelsky (1983, chapter 6), O’Donnell (1989, chapter 13), Skidelsky (1991, pp. 113-117), Helburn (1991) and Skidelsky (1992, chapter 3). According to Skidelsky, “Burke gave Keynes a framework for thinking about politics” (Skidelsky, 1991, p. 113), and “may lay strong claim to be his political hero” (Skidelsky, 1983, p. 154). The main Burkean traits of Keynes’s political philosophy are prudence and expediency. Helburn (1991) adds elitism and interventionism.

<sup>5</sup> Therefore, it is hard to agree with statements such as those stressing, without qualification, “Keynes’s failure to provide us with a theory of politics” (Barry, 1979, p. 173).

efficacy, and indeed the necessity, of the opportunity for unlimited private money-making as an *incentive* to maximum effort” (Keynes, 1926b, p. 283). The latter (“the love of money”) is “one of the most powerful of human motives” (Keynes, 1926b, p. 284).

For Keynes, these ideas are not suitable to the reality of modern world. For the sake of simplicity, they are based upon an incomplete hypothesis: “the conclusion that individuals acting independently for their own advantage will produce the greatest aggregate of wealth, depends on a variety of *unreal* assumptions to the effect that the process of production and consumption are in no way organic, that there exists a sufficient foreknowledge of conditions and requirements, and that there are adequate opportunities of obtaining this foreknowledge” (Keynes, 1926b, p. 284). Economists tend to avoid the complications which result from the analysis of the real world and tend to overlook crucial facts which emerge

(1) when the efficient units of production are large relatively to the units of consumption, (2) when overhead costs or joint costs are present, (3) when internal economies tend to the aggregation of production, (4) when the time required for adjustments is long, (5) when ignorance prevails over knowledge, and (6) when monopolies and combinations interfere with equality in bargaining (Keynes, 1926b, pp. 284-285).

This system produces a “tendency for wealth to be distributed where it is not appreciated most” (Keynes, 1926b, p. 285). The competitive struggle of one against each other, which in theory would produce the public good, and which is a kind of “social and economic Darwinism”, brings about high costs to society in the form of suffering of the weaker (the less efficient), waste, anxiety, aggressiveness, and hostility.

Thus, contrary to the old liberal beliefs grounded on individualism and laissez-faire, Keynes has a dissenting opinion:

It is *not* true that individuals possess a prescriptive ‘natural liberty’ in their economic activities. There is *no* ‘compact’ conferring perpetual rights on those who Have or on those who Acquire. The world is *not* so governed from above that private and social interest always coincide. It is *not* so managed here below that in practice they

coincide. It is *not* a correct deduction from the principles of economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally *is* enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these. Experience does *not* show that individuals, when they make up a social unit, are always less clear-sighted than when they act separately (Keynes, 1926b, pp. 287-288).

In this scheme of things, it is inevitable to approach the role of the State.<sup>6</sup> Keynes claims that the task of economists is to differentiate once more “the *Agenda* of government from the *Non-Agenda*; and the companion task of politics is to devise forms of government within a democracy which shall be capable of accomplishing the *Agenda*” (Keynes, 1926b, p. 288).

Keynes employs two criteria to demarcate “the Agenda of the State”. First, progress of society will depend partly on the development of “semi-autonomous bodies within the State”, that is, institutions or corporations with separate autonomies (a “mode of government”), but subject to “the sovereignty of the democracy expressed through Parliament” (Keynes, 1926b, p. 289). The chief code of conduct of these semi-autonomous bodies (or “stable bureaucracies”, in an updated language) should be the search for the public good, in spite of the difficulties of controlling private interests of groups and classes. Instances of these bodies are the universities and the Bank of England.

The above is accompanied by what Keynes calls “the trend of joint stock institutions ... to approximate to the status of public corporations rather than that of individualistic private enterprise. ... [This is] the tendency of big enterprise to socialise itself” (Keynes, 1926b, p. 289). As capitalism evolves, big institutions experience an increasing process of dissociation of the ownership of capital (shareholders) from the management. Its emergence also changes the main aim of the institution: its “general stability and reputation ... are more considered by the management than the maximum of profit for the shareholders ... [T]he direct interest of the management often consists in avoiding criticism from the public and from the customers

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<sup>6</sup> At times, Keynes seems to equate the State to government, which, rigorously, is not correct. He also considers as having the same meaning the functions, the activities and the services of the State. But, as Skidelsky (1989, p. 144, p. 148) observes, what Keynes means by the State is something different from government.

of the concern” (Keynes, 1926b, p. 289). These features show that big institutions are “socialising themselves” (Keynes, 1926b, p. 290).<sup>7</sup>

Second, Keynes classifies within the Agenda of the State the services which are “technically social” and “technically individual”. More precisely, “the most important *Agenda* of the State relate not to those activities which private individuals are already fulfilling, but to those functions which fall outside the sphere of the individual, to those decisions which are made by *no one* if the State does not make them. The important thing for government is not to do things which individuals are doing already, and to do them a little better or worse; but to do those things which at present are not done at all” (Keynes, 1926b, p. 291).<sup>8</sup>

For Keynes, “the greatest economic evils of our time are the fruits of risk, uncertainty, and ignorance”. They help to explain why exist “great inequalities of wealth ... the unemployment of labour ... the disappointment of reasonable business expectations ... the impairment of efficiency and production” (Keynes, 1926b, p. 291). To alleviate this situation society should find adequate policies and not rely entirely on individuals operating by themselves.

As an attempt to tame uncertainty and mitigate its consequences, Keynes proposes “the deliberate control of the currency and credit by a central institution, ... and the collection and dissemination on a great scale of data relating to the business situation, including the full publicity, by law if necessary, of all business facts which is useful to know” (Keynes, 1926b, p. 292). Furthermore, government actions are also required in matters such as saving, investment and population. Keynes believes that to leave investment and saving decisions to “the chances of private judgement and private profits” aggravate those “economic evils”; on the contrary, “some coordinate act of intelligent judgement” is required to organise useful as well as social destinations for investment and saving. He also defends deliberate national policies concerning the “size of population”.

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<sup>7</sup> One could also defend an opposite point of view, namely, that the growth of these institutions (mainly the private ones, but also the public ones), as well as the economic and political power they enjoy in modern societies, created a situation of “privatisation of the State”, that is, open and/or hidden actions within the State attached to vested interests, the consequence being the “politicisation of economic decisions”, such as, for instance, pressures for creating and maintaining subsidies to privileged sectors or groups or the understanding that budgetary deficits are politically generated. This discussion involves the issue of corporatism. In this respect, see Gamble (1993) for a discussion on Keynes, post-war Keynesian policies and corporatism.

<sup>8</sup> In today’s language, this is a “public goods” view of the tasks of government. For a similar interpretation, see Skidelsky (1989, p. 145; 2010, p. 161).

Keynes sees no incompatibilities between his ideas and “the essential characteristic of capitalism, namely the dependence upon an intense appeal to the money-making and money-loving instincts of individuals as the main motive force of the economic machine” (Keynes, 1926b, p. 293). The idea is not to eliminate the money-motive of the individuals but to channel it to a non disastrous way. Arguments against capitalism, sounder or weaker, spring mainly from moral and psychological grounds, not economic or technical ones. These arguments, instead of emphasising capitalism as something desirable or objectionable, should be changed. He proposes to judge the capitalism as “an efficient or inefficient technique” (Keynes, 1926b, p. 294). His position is:

For my part I think that capitalism, wisely managed, can probably be made more efficient for attaining economic ends than any alternative system yet in sight, but that in itself it is in many ways extremely objectionable. Our problem is to work out a social organisation which shall be as efficient as possible without offending our notions of satisfactory way of life. ... We need a new set of convictions which spring naturally from a candid examination of our own inner feelings in relation to the outside facts (Keynes, 1926, p. 294).

The “end of laissez-faire” means, thus, the rise of an era of uncertainty and conflict whose potential solution lies partly on the diligence and intelligence of those who have in their hands the “right methods” and the right aim to guide the affairs of the State. In a time which was still feasible to believe in certain utopias one can not blame Keynes for forgetting to say that the State’s *raison d’être*, that is, *la Raison d’Etat*, is a matter somewhat more complex and sometimes (just apparently) puzzling.

#### *The Political Philosophy of The General Theory*

The present account would be incomplete without reference to the political philosophy underpinning Keynes’s *The General Theory of Employment, Interest and Money* (*GT*). Fragmented parts of and insights for a potential “science of government” or a rationale for the role of the State can be found in his most prominent work. In this book, one can find economic theory which elucidates decision-making processes in an economy surrounded by

uncertainty and systemic instability, as well as the consequences of such decisions. The *GT* is supposed to afford those “right tools and right methods” to manage and save capitalism from its inherent crises. In this, the State has a fundamental role.

The “dependent variables” of the theoretical scheme presented in the *GT* are the volume of employment and income (Keynes, 1936, p. 245). The main concern of the authorities should be the creation of a state of affairs suitable to the generation of employment and income. These variables can be influenced by the set of “independent variables”, namely the propensity to consume, the schedule of the marginal efficiency of capital and the rate of interest, which, in Keynes’s view, are the key variables to be controlled by the State in order to stabilise the system (Keynes, 1936, p. 245).

At the beginning of the *GT*’s last chapter (ch. 24) – “Concluding Notes on the Social Philosophy Towards Which the General Theory Might Lead” – Keynes states the following:

the outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes (Keynes, 1936, p. 372).

The solution of these problems involves the active presence of the State in the economic domain. In this scheme, it is not that the individual initiative should be suppressed but that the State should play a crucial role: “The State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways” (Keynes, 1936, p. 378). Keynes’s reconstructed, pragmatic New Liberalism opens the door for an important presence of the State:

I conceive, therefore, that a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment; though this need not exclude all manner of compromises and of devices by which public authority will co-operate with private initiative. But beyond this no obvious case is made out for a system of State Socialism which would embrace most of the economic life of the community. It is not the ownership of the instruments of production which

it is important for the State to assume. If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments [of production] and the basic rate of reward to those who own them, it will have accomplished all that is necessary. Moreover, the necessary measures of socialisation can be introduced gradually and without a break in the general traditions of society (Keynes, 1936, p. 378).

In other words, to mitigate the evils of capitalism it is necessary to reform its old and ineffective institutions through (social) control over strategic variables. Reform should be as gradual as possible in order neither to break completely with tradition nor to threaten liberal values.<sup>9</sup>

Thus, although Keynes assigns a fundamental role to the State, he simultaneously emphasises the importance and advantages of individualism. The chief advantage is efficiency, which is mainly produced and maintained by the decentralisation of decisions and by the search of the individual self-interest. Once one can isolate its perverse consequences, individualism is the “best safeguard of personal liberty” and also “the best safeguard of the variety of life” (Keynes, 1936, p. 380). Freedom and efficiency must be preserved and protected in order to improve the prospects of both society and the individual. To build “the ideal commonwealth” (Keynes, 1936, p. 374) it is necessary to ensure a large field for the exercise of individual initiative, as well as to the free play of market forces.

Notwithstanding these claims in favour of individual liberty, the most important aspect in Keynes’s vision is the task dispensed to the State in order to establish the ideal conditions for the creation of politically and economically stable systems:

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<sup>9</sup> Also, earlier in the *GT*’s chapter 12, “The State of Long-Term Expectation”, a similar approach is put forward and the idea of “socialisation of investment” is announced. For Keynes, the rate of new investment is influenced by a wide set of variables, such as “the physical conditions of supply in the capital goods industries, the state of confidence concerning the prospective yield, the psychological attitude to liquidity and the quantity of money” (Keynes, 1936, p. 248). However, there are limitations to a wide and permanent management of the rate of interest in order to stimulate investment, and being sceptical as he is about the efficacy of the monetary policy to influence the rate of investment, other expedients are needed: “I expect to see the State, which is in a position to calculate the marginal efficiency of capital-goods on long views and on the basis of the general social advantage, taking an ever greater responsibility for directly organising investment: since it seems likely that the fluctuations in the market estimation of the marginal efficiency of different types of capital, calculated on the principles I have described above, will be too great to be offset by any practicable changes in the rate of interest” (Keynes, 1936, p. 164).

The authoritarian state systems of to-day seem to solve the problem of unemployment at the expense of efficiency and of freedom. It is certain that the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated – and, in my opinion, inevitably associated – with present-day capitalistic individualism. But it may be possible by a right analysis of the problem to cure the disease whilst preserving efficiency and freedom (Keynes, 1936, p. 381).

The *GT* is an attempt to provide the “right analysis of the problem”. The main goal of government action should be the achievement of “an aggregate volume of output corresponding to full employment as nearly as is practicable” (Keynes, 1936, p. 378). To attain this aim the traditional functions of government need to be enlarged. The main justification to the State’s broader presence is that Keynes sees it “both as the only practicable means of avoiding the destruction of existing economic forms in their entirety and as the condition of the successful functioning of individual initiative” (Keynes, 1936, p. 380). More precisely, Keynes’s message is that he wants the State not to destroy but rather to save capitalism from its own long run self-defeating traits.

The *GT* is the climax of a very long process of maturation of Keynes’s ideas. One of its aims is to provide the tools and indicate the means for the accomplishment of an ideal social and economic organisation – the utopian society, the “ideal commonwealth” (Keynes, 1936, p. 374), the “true social republic” with a Platonic flavour which was always present in Keynes’s vision. In this sense, O’Donnell is right when he affirms that “Keynes possessed an utopian vision”, and this “is one of the keys to his political philosophy” (O’Donnell, 1989, p. 290).

### *Keynes’s Liberalism: Assessment*

What type of liberalism does Keynes embrace? The answer to this question can help to delineate the framework of Keynes’s political philosophy, which both Rod O’Donnell (1989, chapters 13-15) and Robert Skidelsky (1992, chapter 7) call “Philosophy or Politics of the Middle Way”.<sup>10</sup>

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<sup>10</sup> However, following Keynes’s own use of terms, perhaps it is better and straightforward to label it “New Liberalism” – or, maybe, *Keynesian* Liberalism.

Keynes is a liberal in the sense that he sees individual freedom as a fundamental value. For instance, he was (in general) free trader, not a socialist, and an anti-communist. Also, he was not a defender of the socialisation of the means of production in a socialist or Marxian sense. Although Keynes's ultimate goal was a non-capitalist utopia, it was also a non-socialist one (O'Donnell, 1989, chapter 13).

For O'Donnell (1989), Keynes sees the nature and scope of State activities in terms of six basic principles: 1) guardian of the common good, 2) agent of social rationality, 3) protector of individualism and personal freedom, 4) promoter of forms of combination and partnership between the State and the private sector (experimentation with various institutional arrangements), 5) use of non-commercial criteria to evaluate some State-funded activities, 6) moderation in the State-induced road to (peaceful, gradual) change (O'Donnell, 1989, pp. 301-307).

In Keynes's view of the State, the state should be run by an "enlightened, rational bureaucracy" representing the common good, immune from class conflicts and vested interests. These elites would be prepared to minimise or contain "self-serving bureaucracies", or disagreements over the public good. "With growth in the knowledge and skills of statecraft and a reduction of unnecessary secrecy, rightly led governments were now increasingly worthy of the trust of the populace as compared to previous eras when wariness of central authority was more justified" (O'Donnell, 1989, pp. 307-308).

For O'Donnell, "In political philosophy Keynes's position is in many respects naïve and deficient. While correct to stress the importance of ideas, he failed to demonstrate sufficient appreciation of their need to be embodied in institutions and aligned with social forces in order to become effective. Appeals to reason are likewise vital but reliance upon persuasion alone as the primary locomotive of change is quite inadequate. ... Another valuable feature of Keynes's political philosophy is that it directs itself at satisfying *both* the material and spiritual needs of humanity. The evolution of economic life was to be deliberately and purposefully guided towards higher ends, and not merely towards ever increasing quantities of goods and services provided largely by a perpetuation of existing arrangements. It is to the detriment and ultimate peril of contemporary civilisation that the ethical and spiritual realm is neglected in favour of a relentless materialism in which all that matters is more output" (O'Donnell, 1989, pp. 337-338).

Keynes's liberalism is different from classical liberalism in many respects: "It rejects the false antithesis between freedom and planning, it contains a significant element of democratic radicalism, and it is open to alignment with forms of socialism not predicated on extensive state ownership. ... [L]iberalism and socialism both need to continue the critical reevaluation of their past conceptions so as to develop new forms based on accumulated experience and changed historical conditions, but without collapsing into purely pragmatic conceptions through the abandonment of long-term visions of improvement" (O'Donnell, 1989, p. 338).

In contrast to O'Donnell's interpretation, according to Skidelsky Keynes's "politics of the Middle Way" means "a way of keeping the existing social order going by surrendering some of the outworks to collectivism" (Skidelsky, 1989, p. 146). Keynes has a "motivational definition of the State", in the sense that "the distinguishing characteristic of the State was not mechanism or function, but motive. He meant by it a nexus of institutions working for the public good. These institutions could be privately owned; they could supply goods and services through the market. But their tradition, prestige, or situation was such that those who managed them were constrained to take the public good into account in making their decisions" (Skidelsky, 1989, p. 144). Keynes's sees the State as a "group of institutions, private and public, that pursue public aims" (p. 149), which is suitably positioned to put into practice the full employment investment policy implied by the *GT*: "Keynes's aim, in other words, is not to enlarge the government, but to enlarge what Walter Lippmann called 'the public philosophy'" (Skidelsky, 1989, p. 150).

Thus, Keynes's view of the economic borders of the State is peculiar. For Skidelsky, "Keynes's 'State', being defined by the relative absence of the self-serving motives, is both larger and smaller than the contemporary one. It includes bodies that are legally private, but that consciously serve the public interest; it excludes self-serving individuals, whether or not these happen to be politicians" (Skidelsky, 1989, p. 151).

Interpreters are not in complete agreement as how to label Keynes's liberalism. For instance, O'Donnell (1989) regards Keynes a "progressive or left liberal" (p. 313) and as a "new New Liberal" (p. 321), a theorist of a "reformed and remodelled Liberalism" (p. 321), which could be "applicable to modern conditions and capable of moving along the lines of his philosophy towards rational ethical ends" (p. 321). These ideas were not pleas for a return

to pre-1914 New Liberalism, but for the modernisation of New Liberalism along the lines of Keynes's philosophy, that is, a confrontation with the old liberalism, but within a transformed intellectual structure and in a changed historical situation (O'Donnell, 1989, p. 321). Keynes thus tried the modernisation of the New Liberalism, a political and philosophical movement led by Leonard Hobhouse, John Hobson and Thomas Green, among others (the most prominent thinkers of this movement also known as "liberal socialism" [cf. O'Donnell, 1989, p. 317]), who sought to renovate the liberal doctrine incorporating values of the socialist tradition.<sup>11</sup>

Thus, Keynes's "New Liberalism" is based on a rejection of *laissez-faire*, a repudiation of state socialism and class politics, an acceptance of state-managed capitalism, and a willingness to co-operate with moderate Labour (O'Donnell, 1989, p. 316).

On the other hand, Skidelsky believes that "Starting as a Liberal Keynes ended up as a Whig" (Skidelsky, 1992, p. 232). Skidelsky (1989) classifies Keynes as a "classical" liberal since he belongs to an intellectual movement – "the second liberal revival" – which was not interested in reformulating liberal ideas in the manner of the New Liberalism:

Unlike the New Liberalism, it made no serious attempt to reshape the philosophical foundations of liberalism. A central preoccupation of New Liberals was with the question of moral capacity as affected by possible distributions of wealth, income, and initial endowments. This led them to justify interferences with existing property relations. By contrast, the second wave of liberal thinkers tended to take existing property relations as given; what they did (Hayek excepted) was to impose a managerial philosophy on the theory and practice of 'classical' liberalism. This reflects a much greater institutional timidity in face of the violent rearrangement of property relations that had taken place in Russia; and a faith, which may have been born of desperation, in the ability of the social sciences to 'solve' problems (Skidelsky, 1989, pp. 146-147).<sup>12</sup>

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<sup>11</sup> It is also known as "social liberalism". "Social Liberalism is the belief that liberalism should include social justice. It differs from classical liberalism in that it recognises a legitimate role for the state in addressing economic and social issues such as unemployment, health care, and education while simultaneously expanding civil rights. Under social liberalism, the good of the community is viewed as harmonious with the freedom of the individual" (Wikipedia).

<sup>12</sup> Michael Freeden goes too far to state that Keynes embraces a "centrist [!] Liberalism" (cf. O'Donnell, 1989, p.

It should be stressed that Keynes's revisionist liberalism does contemplate social justice. However, it does not imply that Keynes was a defender of egalitarianism. The issue of justice also divides opinions of interpreters.

For Skidelsky, social justice was not an important issue in Keynes's liberalism. "The truth is that Keynes's notion of inequity was largely limited to the existence of windfall or unjustified gains and losses. ... Redistribution plays a minor part in his social philosophy, and then only as an adjunct to the machinery of macroeconomic stabilisation, not as a means to an ideal end" (Skidelsky, 1992, p. 223). *Au contraire*, for O'Donnell, Keynes does not "relegate social justice and distribution into relative insignificance"; rather, "distribution and social justice were genuine, if not overriding concerns for Keynes" (O'Donnell, 1989, p. 319). I tend to believe that O'Donnell's interpretation is more accurate than Skidelsky's.

Keynes systematically points out that in his idea of utopia a just society is fundamental. As we have seen above, references to the importance of social justice abound in his writings. It is as important as efficiency and freedom:

The transition from economic anarchy to a regime which deliberately aims at controlling and directing economic forces in the interests of social justice and social stability, will present enormous difficulties both technical and political (Keynes, 1925, p. 305).

The political problem of mankind is to combine three things: economic efficiency, social justice, and individual liberty (Keynes, 1926a, p. 311).

The main political problem of today is ... safe guidance ... towards the establishment of an economically efficient and economically just society. ... There is a *dual aim* before the statesman – a society which is just and a society which is efficient. ... It is useless to suppose that we can pursue ideal justice regardless of ways and means in the economic world. It is the task of the Liberals ... to guide the aspirations of the masses for social justice along channels which will not be inconsistent with social efficiency" (Keynes, 1927, pp. 639-640).

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316, and Skidelsky, 1992, pp. 222-223). See also Skidelsky (1992, pp. 223-224) for a discussion on the similarities and differences between Keynes's Liberalism and the tradition of social liberalism.

The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes (Keynes, 1936, p. 372).

The need for redistribution, as a prerequisite for more social justice, reaches a dramatic, extreme note as far as the euthanasia of the rentier (“the functionless investor”) is concerned. No other “*economiste bourgeois*” has ever made such a strong defence of a radical reconfiguration of a society’s “class structure” through consciously abolishing “the rentier aspect of capitalism” (Keynes, 1936, pp. 375-76).

Thus, Keynes’s liberalism has a complex, ambiguous relationship with the ideas and values of social democracy.<sup>13</sup> On the one hand, one sees: 1) a concern with social justice, 2) the importance of State intervention (the need for “a somewhat comprehensive socialisation of investment”). On the other hand, although reformist in some sense, Keynes’s views and attitudes were elitist, which make it rather difficult to associate him closely with the social democratic thought. But mass, working class movements were the social and political background which pushed governments in order to promote social reforms and create the welfare state. As it was pointed out above, Keynes’s feelings concerning trade unions, the (British) Labour Party and mass movements were not very sympathetic. As Helburn remarks, “In the 1930’s Keynes described his own politics as on the extreme left of celestial space, presumably to indicate his visionary hopes for a post-capitalist world and his desire to encourage changes consonant with this vision. His elitism and limited tolerance of democratic practice and working-class politics give his politics a decidedly conservative edge. Nevertheless his conscious integration of ethical considerations, political philosophy and social sciences into practical reason created a powerful rational basis for twentieth-century interventionist liberalism” (Helburn, 1992, p. 44).<sup>14</sup>

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<sup>13</sup> Social democracy understood, in general lines, as a political ideology which proposes an evolutionary road to socialism or, at least, the “humanisation” of capitalism (see O’Hara, 1999).

<sup>14</sup> Needless to say, not everybody is pleased with this “Keynesian liberalism”: “When ‘individualism’ in non-economic matters, to which Keynes repeatedly affirmed his allegiance, is combined with the subordination of statesmen to the technical guidance of economists, there appears to be little left of the political “agenda”. In this sense it may be said that Keynes aimed not only at the euthanasia of the *rentier*, but at the euthanasia of politics as well. His thought is prototypical of the tendency of modern economics to subsume politics and political philosophy under itself” (Schaefer & Schaefer, 1983, p. 60).

Keynes liberalism may also fall under the label “rationalistic or constructivist liberalism”, a category invented by Hayek to define, by contrast, his own liberalism.

### 3) Hayek and “Classical Liberalism”

This part discusses Hayek’s self-definition of liberal. This will be made by approaching his accounts of conservatism as well as of the differentiation between two types of liberalism: the “rationalistic-constructivist” and the “evolutionary-classical”.

#### “*Why I am not a Conservative*”

In the article “Why I am not a Conservative”, included in *The Constitution of Liberty* (Hayek, 1960) as a postscript, Hayek seeks to clarify what he understands by “true liberalism”, as opposed to “rationalistic liberalism” and conservatism, in order to provide an account of his true political beliefs.

Hayek says that the liberal attitude is often considered “conservative”. For Hayek, “conservatism proper is a legitimate, probably necessary, and certainly widespread attitude of opposition to drastic change” (Hayek, 1960, p. 397). But the decisive objection to conservatism is that “by its very nature it cannot offer an alternative to the direction in which we are moving” (Hayek, 1960, p. 398). Whereas it is clear to liberalism when and where to move or change, conservatism is strongly attached to a vision which hinders or delays necessary developments; conservatives can influence only the pace, not the trend of progress. The concern of the liberal should be “not how fast or how far we should move, but where we should move” (Hayek, 1960, p. 398).

Unlike conservatism, liberalism was never a “backward doctrine”. On the contrary, it is a doctrine which seeks “to go elsewhere, not to stand still”:

there has never been a time when liberal ideals were fully realized and when liberalism did not look forward to further improvement of institutions. Liberalism is not averse to evolution and change; and where spontaneous change has been smothered by government control, it wants a great deal of change of policy. So far as much of current governmental action is concerned, there is in the present world very little reason for the liberal to wish to preserve things as they are. It would seem to the

liberal, indeed, that what is most urgently needed in most parts of the world is a thorough sweeping-away of the obstacles to free growth (Hayek, 1960, p. 399).

The understanding of a free society ought to consider the meaning of the spontaneous emergence and development of institutions like language, law, morals, and rules. The value of well-established institutions must be recognised by the liberal in the sense that they are the product of human action, as well as non-designed changes. The difference with the conservatives is that the latter value institutions looking only at the past, while the liberal is concerned with the changes which may lead to further improvements.

Hayek points out the basic points which show strong and irreconcilable distinctions between liberalism and conservatism, namely, the attitude before change, the meaning of authority, the acceptance of the principle of tolerance, the role of the elites, and democracy.

First, one basic feature of the conservative attitude is “fear of change”, a “distrust of the new as such”, while the liberals stresses “courage and confidence”, “a preparedness to let change run its course even if we cannot predict where it will lead”. The conservatives do not believe “in the spontaneous forces of adjustment which makes the liberal accept changes without apprehension, even though he does not know how the necessary adaptations will be brought about”. For the liberal, in particular in the economic domain, the self-regulating forces of the market will somehow produce the required adjustments to new conditions, but no individual can predict how they will do this in a particular instance. On the other hand, conservatives feel “safe and content” only to the extent that they believe that “some higher wisdom watches and supervises change, only if [they know] that some authority is charged with keeping the change ‘orderly’” (Hayek, 1960, p. 400). Thus, for the liberal the belief in freedom is based on “an essentially forward-looking attitude and not on any nostalgic longing for the past or a romantic admiration for what has been” (Hayek, 1960, p. 410).<sup>15</sup>

The second point is the conservative’s fondness of authority. According to Hayek, “order appears to the conservatives as the result of the continuous attention of authority, which, for this purpose, must be allowed to do what is required by the particular

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<sup>15</sup> It could be argued that although Hayek emphasises openness to the new as a distinctive feature of a “true” liberalism, as compared to the conservative view, such “fearlessness” is strictly circumscribed or limited to the conditions in which individual liberty – in his view the most important of the liberal values (if not *the* value) – is on stage.

circumstances and not be tied to rigid rule” (Hayek, 1960, p. 401). As conservatism does not have a theory of society as well as a theory of how the economy operates, it frequently resorts to the liberal thinking to fill such gaps. But, for Hayek, the flaw of this approach is that the liberal is primarily concerned with the ways in which the powers of authority are limited rather than the conservative preoccupation with self-satisfaction with and the enforcement of established authority:

the conservative does not object to coercion or arbitrary power so long as it is used for what he regards as the right purposes. He believes that if government is in the hands of decent men, it ought not to be too much restricted by rigid rules. Since he is essentially opportunist and lacks principles, his main hope must be that the wise and the good will rule – not merely by example, as we all must wish, but by authority given to them and enforced by them. Like the socialist, he is less concerned with the problem of how the powers of government should be limited than with that of who wields them; and, like the socialist, he regards himself as entitled to force the values he holds on other people (Hayek, 1960, p. 401).

Third, Hayek emphasises that the principle of tolerance is fundamental to the successful establishment and enhancement of a society of free men and liberal values. He believes that the chief feature of liberalism, which distinguishes it from both socialism and conservatism, is the absence of moral coercion over individuals’ conduct.

Fourth, for Hayek, the conservative overrates the role of the elites in any society. This vision states that there are superior people with standards, values, positions and wisdom which enable them to conduct public affairs properly. On the contrary, the liberal “denies that anyone has authority to decide who these superior people are” (Hayek, 1960, p. 402). Also, liberals cannot accept the existence of any “coercive power of the state in order to shelter such people against the forces of economic change” (Hayek, 1960, p. 403). The point is that the same rules ought to be applied to all individuals irrespective of hierarchy, status, position, inheritance or privileges.<sup>16</sup>

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<sup>16</sup> Thus, by this criterion, Keynes would be a conservative.

Fifth, this discussion leads also to the common disposition of the conservatives towards democracy. Hayek's point of view about democracy can be mapped when he states that he does not consider the "majority rule as an end but merely as a means, or perhaps even as the least evil of those forms of government from which we have to choose" (Hayek, 1960, p. 403).<sup>17</sup> Hence, the conservatives make a mistake when they accuse democracy for the evils of present time, for "the chief evil" happens to be unconstrained government:

nobody is qualified to wield unlimited power. The powers which modern democracy possesses would be even more intolerable in the hands of some small elite. ... But it is not democracy but unlimited government that is objectionable, and I do not see why the people should not learn to limit the scope of majority rule as well as that of any other form of government. ... At any rate, the advantages of democracy as a method of peaceful change and of political education seem to be so great compared with those of any other system that I can have no sympathy with the anti-democratic strain of conservatism. It is not who governs but what government is entitled to do that seems to me the essential problem (Hayek, 1960, p. 403).

Conservatism's resistance to the growth of government in the economic sphere stems from its understanding of the specific aims of government and the particular role of the State, rather than its firm principles. In this matter, conservatives are rather ambiguous, for they at the same time propose economic measures which are liberal in some fields and protectionists in others. For Hayek, in doing this, they frequently align with the socialists.

Apart from these basic differences between liberalism and conservatism, Hayek also explores other contrasts, such as conservatism's fear of new ideas, its lack of distinctive principles and ideas, and its distrust of theories and the power of argument. For Hayek, such attitudes lead to an *a priori* defeat in the battle of ideas: "unlike liberalism with its fundamental belief in the long-range power of ideas, conservatism is bound by the stock of ideas inherited at a given time. And since it does not really believe in the power of argument, its last resort is generally a claim to superior wisdom, based on some self-arrogated superior quality" (Hayek, 1960, p. 404).

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<sup>17</sup> See Hayek (1978, particularly part two) for a more detailed account of his views about democracy.

Also, the liberal sees the advance of knowledge as a result of human effort, an useful tool to face adversity. It is at the core of human nature the search for new achievements and the liberal is always opened to the emergence of new knowledge and its short and long run consequences. On the contrary, conservatives are essentially “obscurantist”. They tend to reject promptly new ideas or knowledge which potentially seem to threaten their beliefs or status through their consequences.

Such a disposition to resist the new, the strange and the different often leads to a strong hostility to internationalism and to a defence of nationalistic positions. For Hayek, this is also a display of weakness, for sound ideas have no frontiers, and the advance of knowledge is a process with international dimensions. To be apart from this process is to be unable of influencing and directing it. Moreover, the connection between conservatism and nationalism often produces collectivist and imperialistic attitudes: “the more a person dislikes the strange and thinks his own ways superior, the more he tends to regard it as his mission to ‘civilize’ others – not by the voluntary and unhampered intercourse which the liberal favors, but by bringing them the blessings of efficient government” (Hayek, 1960, p. 406).

Hayek also contrasts his views with that of the conservatives (and the socialists) by resorting to an analysis of how rationalism, anti-rationalism and irrationalism are present in these doctrines. For him, the liberal has a “midway position” between the others:

he is far from the crude rationalism of the socialist, who wants to reconstruct all social institutions according to a pattern prescribed by his individual reason, as from the mysticism to which the conservative so frequently has to resort. What I have described as the liberal position shares with conservatism a distrust of reason to the extent that the liberal is very much aware that we do not know all the answers and that he is not sure that the answers he has are certainly the right ones or even that we can find all the answers. He also does not disdain to seek assistance from whatever non-rational institutions or habits have proved their worth. The liberal differs from the conservative in his willingness to face this ignorance and to admit how little we know, without claiming the authority of supernatural sources of knowledge where his reason fails him. It has to be admitted that in some respects the liberal is fundamentally a skeptic – but it seems to require a certain degree of diffidence to let

others seek their happiness in their own fashion and to adhere consistently to that tolerance which is an essential characteristic of liberalism (Hayek, 1960, pp. 406-407).

For Hayek, this issue is closely related to those of religious creeds. In general, rationalists are anti-religious and conservatives try to dictate which beliefs must be followed. On the contrary, “what distinguishes the liberal from the conservative here is that, however profound his own spiritual beliefs, he will never regard himself as entitled to impose them on others and that for him the spiritual and the temporal are different spheres which ought not to be confused” (Hayek, 1960, p. 407).

By raising all these points, Hayek claims that the contrasts are strong enough to emphasise why he is not a conservative. Consequently, he addresses the question about if what was discussed should suffice to consider him a “liberal”. He asks if the proper name of the “party of liberty” ought to be liberal. At the same time, he believes he is not comfortable in being considered a “liberal” as the same type of those members of “the rationalistic Continental liberalism or even the English liberalism of the utilitarians” (Hayek, 1960, p. 407). His “true liberalism” belongs to the tradition of Edmund Burke, Thomas Macaulay, William Gladstone, Alexis de Tocqueville, James Madison and Lord Acton, that is, neither to the Continental liberalism nor the liberalism in England since Lloyd George. He wants “a word which describes the party of life, the party that favors free growth and spontaneous evolution” (Hayek, 1960, p. 408). For the liberalism which is (then) in practice worldwide is far from the liberalism he professes. He wants a party – not a political party in a strict sense, but “groups of men defending a set of intellectual and moral principles” (Hayek, 1960, p. 411) – whose members hold beliefs familiar to those of the English, “for whom liberty rather than equality or democracy was the main goal” (Hayek, 1960, p. 531, n. 16). “Whiggism” is the name, historically correct, of the genuine party of liberty: “it has been the name for the only set of ideals that has consistently opposed all arbitrary power” (Hayek, 1960, p. 410); its basic principles are the touchstone of a modern and restated liberalism.<sup>18</sup> Hence, more

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<sup>18</sup> As Hayek stresses, the purpose of his book *The Constitution of Liberty* is a “restatement”, in the light of modern conditions, of the classical liberal principles (Hayek, 1960, p. 409).

important than the name is the attitude in embracing those general principles – the defence of freedom.<sup>19</sup>

In view of these considerations, the tasks of the political philosopher are all important:

In a world where the chief need is once more, as it was at the beginning of the nineteenth century, to free the process of spontaneous growth from the obstacles and encumbrances that human folly has erected, his hopes must rest on persuading and gaining the support of those who by disposition are ‘progressives’, those who, though they may now be seeking change in the wrong direction, are at least willing to examine critically the existing and to change it wherever necessary (Hayek, 1960, pp. 410-411).

The political philosopher should try to influence long-range developments and public opinion, as well as consistently defend the true general liberal principles. However, the matter of how those principles should be applied in a concrete programme of formal political parties, and how to organise people for action, is not a task for the philosopher, but rather a task for politicians and statesmen.<sup>20</sup>

In sum, in “Why I am not a Conservative” Hayek is mainly concerned in arguing the strong distinctions between his ideas and those of conservatism. The broader questions about the role of the State are mentioned not directly but *en passant*. One needs to resort to other writings to unveil his analysis of the interactions between government actions and individual behaviour in a market economy.

### *What Type of Liberalism? Two Types of Liberalism*

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<sup>19</sup> It is interesting to note in passing this point regarding a “hierarchy of values” – that of the emphasis upon liberty in detriment of justice, equality, and democracy as liberal values of secondary importance. This seems to be the key to an analysis of the differences within the liberal thought. Different liberal authors do stress different hierarchy of values. This internal tension, sometimes hard to resolve, may engender completely different theories and prescriptions which, at the same time, regard themselves as “liberal”.

<sup>20</sup> One may argue then that Hayek is that kind of philosopher to whom the *vita activa* (active life) and the *vita contemplativa* (contemplative life) (following Hannah Arendt’s categorisation) can be perfectly insulated activities and cannot (should not?) be consistently integrated. Praxis is opposed to speculation and thought; action is opposed to reflection. *Au contraire*, note that, in this respect, Keynes holds another view. Put another way, Keynes’s posture is more similar to Marx’s, in the sense of the need for the intellectual to be not only an interpreter of the world, but also an agent of change – that is, politically *engagé*.

In an article called “Liberalism”, chapter 9 of his *New Studies*, Hayek (1978) claims that there are basically two different concepts or traditions of liberalism, both with two distinct intellectual sources. The first tradition is that associated with the political doctrines of the English Whigs which emphasises individual liberty. This tradition can be called “British”, “classical or evolutionary” type of liberalism; the main authors are John Locke, Montesquieu, David Hume, Adam Smith, Edmund Burke and Thomas Macaulay.

The second tradition is derived from the rationalist philosophy formulated mainly by René Descartes and is labelled “Continental or constructivist” type of liberalism. This tradition is grounded on the “rationalist or constructivistic view which demanded reconstruction of the whole society in accordance with principles of reason” (Hayek, 1978, p. 120). Philosophers who contributed to this tradition were Thomas Hobbes, Baruch Spinoza, Voltaire and Jean-Jacques Rousseau.

The chief difference between these two approaches rests on the distinct emphasis which each one ascribes to “individual freedom of action” or “equality of all men”: “While to the older British tradition the freedom of the individual in the sense of a protection by law against all arbitrary coercion was the chief value, in the Continental tradition the demand for the self-determination of each group concerning its form of government occupied the highest place” (Hayek, 1978, p. 120).<sup>21</sup>

For Hayek, public actions consciously and rationally directed to promote social justice or social welfare, or to construct a “better world”, inevitably worsen the initial conditions and threaten individual liberty. For instance, the attempts to perpetuate the prosperity and to sustain full employment through the expansion of money and credit leads to an inflationary process (and a level of employment adjusted to the path of the inflation) whose cure will demand large-scale or widespread unemployment. As a market economy cannot be sustained with accelerating inflation, governments frequently try to combat inflation by further intervention such as price and wages controls. Also here (inflation processes), one may find Hayek’s at times exaggerated, narrow account of the events: “Inflation has always and everywhere led to a directed economy, and it is too likely that the

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<sup>21</sup> Even today, this is the expression of the endless political struggle within liberal thought (but not only within it) between the supporters of liberty as the paramount liberal value (and, consequently, an important role for the market) and those defenders of social justice as a prerequisite to the effective functioning or realisation of freedom. In this debate, the role of the State is the focus of dispute.

commitment to an inflationary policy will mean the destruction of the market economy and the transition to a centrally directed totalitarian economic and political system” (Hayek, 1978, pp. 131-132).

*Hayek’s Liberalism: A Brief Appraisal*

For Helm (1989, p. 5), Hayek belongs to the “constitutionalist” approach of the liberal tradition, which argues “for the imposition of rules to limit the State’s activities”. For Feser (2006, p. 6), Hayek is a (self-proclaimed) “Burkean Whig”, for he conceived a political synthesis consisting of a “characteristically New Right combination of classical liberal economics and Burkean conservative social theory”. Gray (1989) also found a conservative proclivity in Hayek’s liberalism: “Hayek’s conception of the proper role of government ... is far removed from the libertarian ideal, found in Nozick and even in Friedman, of the minimum State. It has much in common with, and indeed stands in the tradition of, the liberal-conservatism of such thinkers as Tocqueville, Constant, and de Juvenel – all of whom acknowledged the necessity and desirability of governmental action for the promotion of individual liberty and market competition” (Gray, 1989, p. 136).

What John Gray calls the “Hayek’s project” can be summarised in the following way:

In general ... the project is that of confining discretionary State activity to the achievable minimum. The justification for such restraint is that only if government is subject to discipline of strict rules does it become the guarantor, rather than the invader, of individual liberty. This is, indeed, Hayek’s version of the liberal doctrine of non-interference. He recognizes (as the defenders of *laissez-faire* did not) that a normative criterion is needed to identify what constitutes ‘interference’ in the first place, and he proposes that those governmental rules and public policies which aim to protect or benefit identifiable sectional interests be characterized as constitution interference. Conversely, if they are general rules applicable equally to all, the laws of a liberal State will not constitute interference, but instead a constitution of liberty. Without such a regime of rules ... there can be neither individual liberty nor effective market competition (Gray, 1989, p. 140).

Gray (1998) also argues that Hayek's social and political thought, a "highly conservative liberalism" (Gray, 1998, p. 151), is inconsistent, for there is a obvious "contradiction between Burkean reverence for tradition and [Hayek's] ... Enlightenment defence of unfettered capitalism as the economic system most favourable to the growth of wealth" (Gray, 1998, p. 153).

#### **4) Keynes vs. Hayek: A Case of Internal Conflict within the Liberal Tradition**

The preceding discussion clearly shows the differences between two self-declared liberals. Although affinities can be found between Keynes and Hayek, predictable when talking about any two liberals, the aim here is to explore the world of differences and antagonisms on the specific issues approached.

On the whole, there are many areas of disagreement between Keynes and Hayek, perhaps more than the affinities. There are differences, for instance, as to the causes of the Great Depression, the causes of inflation, and monetary theory and policy. From the point of view of the methods of analysis, the school of thought which followed Keynes (e.g., the Post Keynesian) and the one continued by Hayek from the Austrian school (Menger, Wieser, Bohm-Bawerk, Mises) are quite antipodal. Also, diagnoses of economic problems as well as prescriptions are matters of dissent.<sup>22</sup>

The most pressing issue in which the antagonism between Keynes and Hayek unavoidably arises is the role of the State. Whereas Keynes sees the State with an important role to play in the texture of economic affairs, such as to maintain adequate levels of employment and income through public expenditures, as well as concern with the appropriate political conditions necessary to support social and economic stability, Hayek stresses that deliberate and systematic public actions, the unjustifiable interference of the State in both economic domain and private individual life, is the easiest road to increase the degree of coercion on the individual. For Keynes, the State can guarantee an adequate reproduction of the economic system via the stabilisation of the marginal efficiency of capital and, as a consequence, of the effective demand. For Hayek, the State is a permanent menace which tends to destroy the basis of the capitalist order, which is grounded on individual freedom

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<sup>22</sup> Andrade (1998, 2007) discusses an important commonality, related to the role of conventions in conditions of uncertainty (Keynes) and of social rules of conduct in a world of complex phenomena and "incurable, irremediable" ignorance (Hayek).

(defined as the inverse of the degree of coercion exercised by one individual on another). Keynes wants the State harmonising, as far as possible, the operation of the capitalist machine; Hayek does not want the State acting on the institutions of a free society at all.

Keynes, the “philosopher-economist”, was a thinker who fits well into the intellectual tradition which values interdisciplinary analysis (e.g., Smith, Marx, Mill, Schumpeter, Joan Robinson etc.). He may be considered an utopian. His proposed road to Utopia has an evolutionary and reformist bent: capitalism could be guided or managed to an ideal society based on ethics and reason (cf. O’Donnell, 1989). In this process, the duties of the State are large in scope, from the political to the economic sphere. Typically, once wisely and reasonably managed by an intellectual elite (or, in O’Donnell’s words, by “Platonic Guardians”) it is the best tool available to politicians, civil servants and society as a whole to control and mitigate the inherent instability associated with *laissez-faire* capitalism.

The core of Hayek’s thought is the idea of a free society resulting from the unintended consequences of individual actions which nevertheless produce a spontaneous order. Attempts to plan society consciously, through “social engineering” or according to preconceived ideas (“rational constructivism”), may result in tyranny or dictatorship, which obstructs the wide flow of desires and necessities that motivates individuals. Furthermore, Hayek sees the market as an informational system, by which prices reflect a set of relevant signals indicating when, what and where to produce at a certain cost. Government interference tends to obstruct the free course of competition and the co-ordinating role of the market process.

Keynes proposes a different type of liberalism, namely, a more moderate and reformist liberalism with pragmatic and progressive elements. His aim is to restate the liberal tradition in a world rather distinct from that of his predecessors. In doing this, he is a liberal with a “leftist”, “reformist” bent.

On the other hand, Hayek is a theorist of a radical liberalism (or libertarianism, as some suggested, except, e.g., John Gray). The adjectives attached to his liberalism are few. His aim is to restate the classical tradition of liberalism to the modern conditions. In doing this, he is a liberal with a more “rightist”, “conservative” inclination.<sup>23</sup>

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<sup>23</sup> One should bear in mind that the dual right-left is *relational*. Given the (historical, political) circumstances, one can only exist in relation to the other.

They also differ in the way knowledge (or limitation of) should guide human action. Both emphasise the role of ignorance and uncertainty. Nevertheless, they draw opposite conclusions in relation to such matters. By stating that “we simply do not know” (Keynes, 1937) Keynes implies that the less we know the more we must take action and intervene. When Hayek mentions the “pretence of knowledge” he is also affirming his view that the less we know the less we can intervene in economic life or plan it according to our reason.

Keynes is an optimist and an utopian who believes that sound ideas have the power and are the means of influencing public opinion towards good ends. It is not by chance that one of his books is called “Essays in Persuasion”. Thus, the economist (the public intellectual!) has an important role to perform in influencing events through his technical expertise. On the other hand, Hayek is more like a pessimist, proclaiming mankind’s road to purgatory and hell. For some, he is considered a catastrophist, a preacher of the Armageddon. What he announces is the probable road to serfdom, for individual freedom is increasingly threatened. Where Keynes promises light, Hayek envisages darkness. In both approaches, for good or evil, the central personage is the State.<sup>24</sup>

The appeal of their political messages can be assessed in the light of interpretations of human “nature”. If human beings are (almost) always in search of surpassing their own limits, Keynes’s appeal is definitive and unquestionable and certainly acquires a wider number of followers.<sup>25</sup> His utopian vision touches a chord even more than the cautious alerts of Hayek. Hayek affords a message of excessive prudence (much more than the one Burke would allow?) and, I dare to say, conformism, in the sense that the range of actions to cope with our (scant) knowledge is rather limited and circumscribed. Interference with the spontaneous order is harmful and noxious. The motto, the best to do, is “stand still”, “be quiet”, “take it easy”. For individuals who in essence are prudent and cautious this message is like music of the spheres to their ears. One may not underrate or disdain tradition, as a traditionalist would say.

The political philosophies of Keynes and Hayek have contrasting views on the borders of the State. Hayek emphasises the role of individual choice and market forces in the

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<sup>24</sup> As Skidelsky (2006, p. 86) cheerily put it, it seems that Hayek was never young.

<sup>25</sup> One shall remember that “animal spirits”, or the “spontaneous urge to action rather than inaction” (Keynes, 1936, p. 161), a form of human emotional response under uncertainty, which “make the wheels go round”, the capitalist machine in particular, are one route through which the system may defeat routine, tradition and stagnation and bring about life, progress and new possibilities of betterment.

allocation of resources. Keynes believes in the powers of government action to enhance economic performance or the ability of government to provide a stable macroeconomic framework: “Hayek believed that the capitalist system could achieve a superior allocation of resources because of the superiority of the price mechanism in conditions of uncertainty, provided that a monetary constitution was enforced. Keynes, on the other hand, thought that the economy might fail to co-ordinate itself at the aggregate level, and hence would need the guiding hand of the State to correct it” (Helm, 1989, p. 5).

Keynes belongs to a tradition of “intellectual reconstruction of liberalism in the 1930s to meet the challenge of the dictators. In this story he takes his place alongside such anti-Keynesians as Hayek and Schumpeter, as well as with thinkers like Popper, Mannheim, and Lippmann” (Skidelsky, 1989, p. 146). In this sense, Keynes’s theoretical disagreement with Hayek expresses “not disagreement about political values, but a different judgement concerning the economic means needed to sustain liberal values. In a nutshell, Keynes thought that a mild dose of collectivism was a necessary inoculation against the more virulent forms of the disease, whereas Hayek especially thought of it as the thin end of the wedge” (Skidelsky, 1989, p. 146).

Although with different inclinations, they were both liberals, with similar views as to the importance of individual liberty. However, as to the means required to safeguard a free society, they were at odds: “This disagreement centred on their economic theories. They disagreed about the stability properties of market economies, and therefore came to different conclusions about policy. Hayek had a more complete, better worked out, theory, which is why he held to it so intransigently. But Keynes was more creative, and in fact a better economist, which is why Hayek eventually abandoned economics for political philosophy” (Skidelsky, 2006, pp. 86-87).

## **5) Final Remarks**

From the previous discussion, one sees that Keynes is a political animal hard to be classified. At the same time, he has one foot on the “classical liberalism” and the other on the “rationalistic or constructivist liberalism” (social liberalism or New Liberalism). It seems that Hayek’s liberalism is more straightforward. Perhaps, the reason for this is that one is more

prone to explore and experiment uncharted territories; the other is more concerned in defending and perfecting a long-standing, established, ancient tradition of thought.

Ultimately, if they can be considered liberal, in the broader sense of the word, that is, without adjectives, why do they strongly disagree? This is *the* intriguing question. Perhaps, the answer lies in Joseph Schumpeter's concept of "vision".<sup>26</sup>

The idea of vision helps to illuminate how an economist's intellectual development is conditioned by a certain view of the world, in particular how capitalist economies work. According to Schumpeter (1954, pp. 41-42), the "vision" (also termed "conception") of the economist consists of a "pre-analytical cognitive act" which guides his or her "economic analysis". The latter comprises a set of "techniques" which can be classified into four fields: economic history, statistics, economic theory and economic sociology (Schumpeter, 1954, p. 12). The analysis as such must necessarily take place *after* this pre-analytical cognitive act, which provides the raw material for the analytical enterprise. There is an ineluctable time precedence of vision in relation to the analytical apparatus. Besides, and this might sound dramatic and terrible to more sensitive (i.e., conventional) ears, the vision is "ideological almost by definition" (Schumpeter, 1954, p. 42).

In fact, one could add, the idea of vision ultimately seeks to express the scholar's or observer's vital need to derive meaning from the world around him/her, that is, to uncover through conscious understanding the structures, relations and mechanisms underlying the many "layers" of reality. The vision informs an ideology and a world view (a *Weltanschauung*). Keynes's and Hayek's vision of capitalism is radically different. In their accounts of how the system works, each one stresses distinct, contrasting "emergent properties": spontaneous, inherent instability (Keynes) *vs.* spontaneous order (Hayek); self-destruction *vs.* self-regulation. Thus, it is not surprising that they come out with quite contrasting views (and policies) of the liberal credo.

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<sup>26</sup> A further line of inquiry could proceed along the lines of Sheila Dow's (1996, 2002) idea of "modes of thought". Although interesting, prudence tells that this methodological approach should now be left to future research undertakings.

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