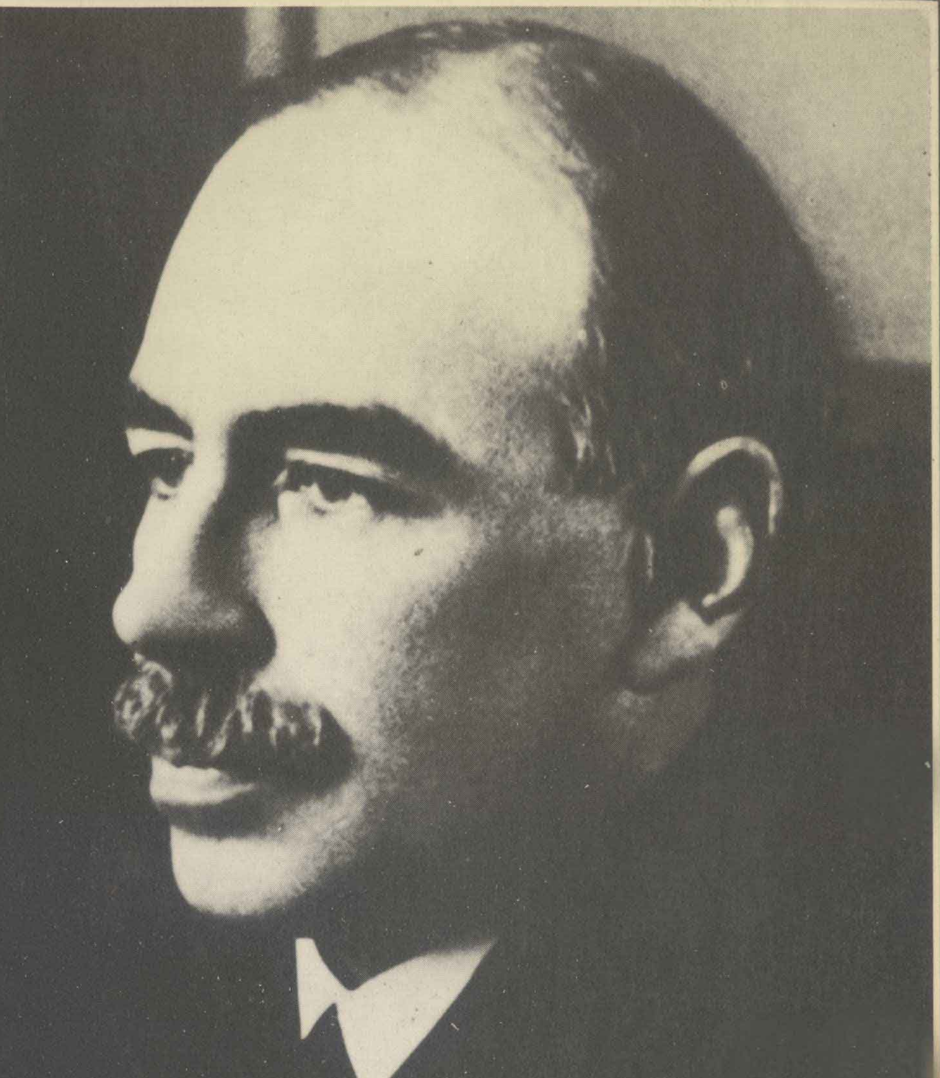

THE END OF THE KEYNESIAN ERA

EDITED BY

ROBERT SKIDELSKY

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Essays on the disintegration of the Keynesian political economy

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Contributors:
Robert Skidelsky, John Vaizey, Marcello de Cecco, Peter Lilley, Samuel Brittan, Aubrey Jones, Robert Lekachman, Stuart Holland, J. T. Winkler, Harry G. Johnson, David P. Calleo and Geoffrey Barraclough

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Preface

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R. S.

Introduction

I have tried to assemble a collection of essays whose focus is on the malfunctioning of our present system of political economy. The use of the phrase 'political economy' is deliberate and, in my view, helpful to understanding. Once government started to assume substantial responsibility for economic affairs, the old separation between politics and economics broke down. In the nineteenth century it was possible and usual to believe that economic life would be affected to a decreasing extent by political 'interference'. This was based on two, complementary, assumptions. The first was that there existed economic laws which, if followed, would maximise everyone's advantage. The second was that certain political, institutional, and psychological conditions could be taken for granted, notably the hegemony of what Keynes was to call the 'educated bourgeoisie', who would understand these economic laws, and the environment necessary for their successful application. The twentieth century has invalidated both these assumptions. Unregulated economic systems proved liable to crippling fluctuations. And, with the growth of democracy, political tolerance for these fluctuations markedly declined. As a result, government took responsibility for stabilising economic activity at a high-enough level of output to maintain something like full employment. This meant, inevitably, that a large area of economic action now depended on political, not market, processes. If political process is more broadly defined, to include bargaining between organised producer groups over such matters as wages and prices, it is apparent how large a segment of contemporary economic life has become 'politicised'. This means that economic action can be less and less explained by theories dealing with the behaviour of individuals acting in the marketplace; that economic problems, such as inflation, have their roots in political, not economic, logic. It used to be thus in the mercantilist era; and our own has aptly been called 'neo-mercantilist' for this reason.

Strangely, at the point in time when real life has been forcing politics and economics together, the two disciplines are becoming more and more separated through the further progress of the intellectual division of labour. Basic economic principles as expounded by, say, John Stuart Mill in the middle of the nineteenth century were still accessible to the educated man. Today economics is understood only by the specialist. In Mill's time, the principles of government were also thought to be clearly established and readily comprehensible. Today unique understanding of them is claimed by political scientists. The language of the two disciplines has thus moved apart even as their content has come together. It may be that specialisation has proceeded to the point where it is becoming counterproductive for the understanding of real-life situations. It is a tribute to the contributors to this volume that it would be difficult to glean from their essays exactly where their academic specialisation lies. They have accepted the challenge to 'think big' about big issues.

The use of the adjective 'Keynesian' to describe our present system of political economy is also deliberate. It is open to three objections.

The first runs as follows. Government intervention in twentieth century economic life has been growing for many different reasons – for humanitarian or socialist reasons, for reasons of war, for reasons of changing economic structure, because of the growth of democracy, and so on. The result is often known as the 'mixed economy'. Why attach the label Keynesian to it? The reason is that Keynes, more than anyone else, determined what the mixture should be. Keynes alone provided an intellectually coherent justification for a certain type of government intervention, one which would save, not destroy, both capitalism and liberal democracy (see Chapter 5 of this book). We have put his theory into operation and lived by it for the last thirty years. Before Keynes, most 'advanced' thinkers believed that some system of authoritarian planning, usually modelled on Russia, was the only answer to the economic problem. Keynes provided an alternative model, an alternative theory of how the economy works, and fails to work, with its in-built policy prescriptions. For the intelligentsia, inside and outside the economic profession, it was essential to have such a theory. Mere inflationism would never have been accepted as a reputable alternative to centralised planning. The change in intellectual atmosphere from the 1930s to the 1950s and 1960s is striking. This was largely the work of Keynes.

A second objection to calling our political economy Keynesian comes from the Marxists. To call it Keynesian, they say, is to obscure its connection with the old capitalism, its injustices, contradictions, and instability. At best Keynes postponed the final crisis, at the cost of intensifying its contradictions. Despite the force of this, the label Keynesian is analytically useful. It draws attention to a crucial development which Marxists tend to deny: the decline in the political power of private capital. This power has steadily receded in face of the growth of working-class organisation and the state. It was this change in the balance of social power that enabled Keynesian ideas to triumph in the first place. No doubt big business needed Keynes too, and appropriated Keynesian spending policies for its own advantage. But need for state economic support is a sign of weakness, not strength; and full employment was a labour, not business, demand, commitment to which has, in turn, strengthened labour's bargaining power. Of course, concentrated private capital is still immensely strong. But it no longer dominates the stage as it did fifty or sixty years ago; and in Britain and Italy it has been substantially, perhaps fatally, weakened. The modern problem of inflation arises, in part, precisely because government and workers are able to appropriate increasing shares of an insufficiently growing national product. Today's 'central economic issue' is defined by Robert Lekachman (Chapter 8) as 'reconciliation within the framework of political democracy and private ownership . . . . of group claims for more of the national product than can be made available'. This was *not* the problem when capitalism ruled the roost, and the adjective Keynesian draws attention to the difference, and its nature.

A third objection to the use of the adjective Keynesian takes the form of denying that Keynesian ideas were in fact that central to the libertarian prosperity of the post-war world. In contrast to the conventional view that 'the widespread absorption of the Keynesian message has in large measure been responsible for the remarkable degree of economic stability in the Western world' since the war (William J. Barber, *A History of Economic Thought* (1967), p. 257), David P. Calleo (Chapter 12) reminds us that 'the "Age of Keynes" has also been, after all, the *Pax Americana*', and that 'Keynesian national economic policies, whatever their own tendencies, have had to be conducted within an international order which has, itself, certain definite tendencies which it transmits to national systems'. The argument is that America's hegemony freed it from the payments discipline which America was able to impose on other powers. America was able to run a deficit on its balance of payments for the better part of three decades. It was this deficit, rather than the combined results of domestic Keynesian management, which produced both world prosperity and inflation. The argument deserves serious attention. Yet even if we give the prolonged American deficits pride of place in sustaining post-war prosperity, can they be separated from the influence of Keynes? It was Keynes, after all, who legitimised deficits of all kinds, by explaining the mechanisms whereby injections in spending power would promote employment and prosperity. In a sense, America can be regarded as having played a Keynesian role on a (free) world scale. At any rate, it is highly doubtful whether either the Americans themselves or the Europeans would have accepted prolonged American deficits without the understanding of their economic function which Keynes provided. And the world inflation to which they helped give rise is part of the general problem of the Keynesian political economy.

The major assumption of most, if not all, of the contributors to this volume is that our contemporary system of political economy is unstable. What will follow? Although three of the contributors (Peter Lilley, Samuel Brittan and Harry G. Johnson) believe that government intervention has already gone too far, the majority appear to accept that the future will (and perhaps should) bring more government control over economic life than Keynes would have considered desirable (though both Lekachman and Geoffrey Barraclough find such further extensions implicit in Keynes himself). Developments and events are forcing the state to do more things in the economy than Keynes wanted and, as J. T. Winkler says in

Chapter 10, 'there is a different logic to how these should be done'. Planning of production and incomes will become permanent; there will be new policies to reduce inequality; public ownership will probably be extended.

A number of questions arise. Are such views to be seen as statements about what will happen or statements about what should happen? One point is worth emphasising. Statements implying a reduction of the government's economic role are almost invariably of the 'should' variety; while those implying an increase in the government's economic role almost invariably take the form of predictions based on current trends. It may be that those who say that such-and-such should happen too often ignore what is actually happening; while those who argue from the trend too often ignore the power of ideas and events to alter trends.

A second problem concerns the name we should give to the political economy beyond Keynes. For those in the Marxist tradition, capitalism will give way to socialism. Such developments as planning, wage–price controls, and so on, can be interpreted as extensions of socialism, particularly if buttressed by further public ownership and the growth of industrial democracy as advocated by Stuart Holland (Chapter 9). Winkler, on the other hand, argues that they are best understood as 'the coming corporatism', a system of state control over a predominantly privately-owned economy: a model obviously derived from fascism.

A third problem, related to the last, has to do with the political implications of such extensions of state activity. Can democracy survive them? The habit of assigning politically bland names to the state's growth (for instance, planning), obscures its political consequences. Commenting on an influential recent argument in favour of more equality. Robert Nisbet remarks: 'The mind boggles at the thought of the political apparatus necessary to give expression to and enforce such a principle. . . . Rawls [in *The Theory of Justice* (1972)] seems never to have heard of political bureaucracy' (*The Twilight of Authority* (1975), p. 216).

Finally, whatever may be the tendencies, ideas or events promoting new developments in our system of political economy, they are not identical in every country. Keynes has been a dominating influence on post-war public policy in Britain, and to a lesser extent, the United States (see Herbert Stein's classic *The Fiscal Revolution in America* (1969)). Harry G. Johnson suggests (in Chapter 11) that Keynesian ideas have been influential, though largely unsuccessful, in the developing countries. But it would be interesting to know just how much influence Keynes has had on the way economics is taught and applied in such countries as Germany, France, Japan and Italy. Perhaps the worldwide sweep of the Keynesian political economy has had more to do with the post-war Anglo-American hegemony than with the existence of well-established domestic 'Keynesian' traditions. In any event, such unity as Keynesian ideas may have given to the post-war economic system is unlikely to survive its present travails. Many flowers will bloom in the years ahead, including, no doubt, some exotic ones.

Robert Skidelsky

Notes on the Contributors

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Marcello de Cecco. Economist. Professor of Monetary Economics, University of Siena. Author of *Money and Empire.*

Peter Lilley. Economic consultant and investment analyst. Former chairman of the Bow Group. Author of *Do you Sincerely Want to Win?, Controlling Inflation,* and (with Samuel Brittan) *The Delusion of Incomes Policy.*

Samuel Brittan. Economics commentator of the *Financial Times.* Visiting Fellow, Nuffield College, Oxford. Author of numerous books and essays, including *Left or Right: The Bogus Dilemma, Capitalism and the Permissive Society, Second Thoughts on Full Employment Policy.*

Rt. Hon. Aubrey Jones. Conservative politician. Minister of Fuel and Power 1955–7; Minister of Supply 1957–9. Chairman, National Board for Prices and Incomes, 1965–70. Author of *Industrial Order* and *The New Inflation: The Politics of Prices and Incomes.*

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Stuart Holland. Historian and economist. Lecturer in European Studies, Sussex University. Cabinet Office 1966–7; Prime Minister's Political Office 1967–8. Member of various sub-committees of the Labour Party's National Executive Committee since 1971. Author of *The Socialist Challenge, The Regional Problem,* etc.; editor of *The State as Entrepreneur.*

J. T. Winkler. Sociologist. Lecturer at Cranfield Institute of Technology. Author of *The Coming Corporatism* (to be published shortly).

Harry G. Johnson. Economist. Until his death in May 1977, Charles F. Grey Distinguished Service Professor of Economics at the University of Chicago, and Professor of Economics at the Graduate Institute of International Studies, Geneva. Author of *International Trade and Economic Growth, Economic Policies Toward the Less Developed Countries, Essays in Monetary Economics,* etc.

David P. Calleo. Political theorist. Professor of European Studies at the Johns Hopkins School of Advanced International Studies. Author of *Europe's Future, Britain's Future, The Atlantic Fantasy* (with Benjamin Rowland), *America and the World Political Economy,* etc.

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Contents

1 The Revolt against the Victorians

ROBERT SKIDELSKY

'We cannot base our hopes for the future upon a resumption of the cheap and easy living standards of the past. . . . We shall have to level down a bit.' So ran a characteristic prediction of 1949. If any one person can be credited with falsifying it, it is John Maynard Keynes. Born in 1883 and dying in 1946, he had, seemingly, bequeathed to politicians the economic equivalent of the Philosopher's Stone – the ability to turn slumps into booms, and so to create general and permanent abundance for the first time in history. Today we are starting to suspect that we have been cheated once again. But Keynes's achievement was more solid than that of the old alchemist, and his name deserves to be given to an era which created at any rate the 'possibility of civilisation' for the peoples of the West.

How did Keynes come to invent Keynesian economics? An exhaustive answer would have to take into account his quality of mind, his personal motivation, the distinctive tradition of Cambridge economics, the challenge of the Depression, and so on. What I should like to do here is to trace his economic originality back to a changed attitude to life dating from his days in Cambridge and London in the 1900s. This new attitude was not confined to Keynes. It was shared also by other Cambridge and London founders of what came to be the Bloomsbury Group. At its centre was an overwhelming sense that life was to be lived for the present, not for the past or the future. As such it involved jettisoning many of the Puritan values dear to the Victorians, including those of Keynes's own family and the older Cambridge generation. I believe it was this vision which drove him to stand out, in his chosen field of economics, against the Victorian restoration attempted in the inter-war years. At the same time, the impatient urge to clear the ground for intelligent and beautiful living led him gravely to underestimate the difficulties of breaking through to permanent prosperity, especially for a country in Britain's situation. In that sense he can be criticised for generalising from the particularly favoured situation of his own milieu in Edwardian Cambridge.

The attempt to ground the Keynesian Revolution in a new consciousness may, but should not, shock the professional economist. Every economic system depends on an appropriate psychic disposition or 'ethic'. The most famous association of this kind is between Protestantism and capitalism. Max Weber argued that the intense anxiety created by the Calvinist doctrine of predestination produced a 'worldly ascetic' ethic favourable to capitalism. In particular, the notion of a goal-directed life, in which a plan of projects to be achieved is methodically geared to limited resources of time and energy, was essential for the development of capitalist rationality. It is hardly surprising, then, that the shift in economic priorities implied by the Keynesian revolution should have had its basis in a changed 'ethic'. The link between the two lies in the radical demotion of 'saving' or 'abstinence'. For, as Keynes well recognised, the economic doctrine of saving embodied a principle of living adopted by Victorian society as a whole. The assault on saving which runs right through Keynes's economic writings can, in my view, be traced directly to his changed personal ethic. The social and political acceptance of the Keynesian Revolution in economics can, in turn, be traced, in part, to a changed social consciousness whose material base was provided by the beginning of a mass consumption economy in the late nineteenth century.

The Victorian background was very much Keynes's own. His mother, Florence Ada Brown, was descended from a bewildering succession of Puritan divines. One of them, the Reverend Everard Ford, an Independent Congregational clergyman, sublimated his forbidden passion for music into vigorous denunciations of human evil. Maynard Keynes's maternal grandfather, the Reverend John Brown, author of a best-selling life of Bunyan, read Gladstone's speeches as Chancellor of the Exchequer round the family hearth. Keynes's father, John Neville Keynes, an economics don of

Pembroke College, Cambridge, is remembered by Bertrand Russell as an 'earnest non-conformist who put morality first and logic second'. At all times, according to Keynes's mother, 'a high standard of moral and intellectual effort' was demanded from members of her family. Keynes's childhood and schooldays, though, seem to have been reasonably happy; and a belief in intellectual excellence, and its hereditary character, was the one aspect of his family's 'ethic' which he adopted without question.

Keynes was born not just into a family but into a particular Victorian culture. The psychology of the 'intellectual aristocracy' which moulded the character of nineteenth-century Cambridge (and much of Britain) has been discussed in a suggestive essay by Lord Annan. Annan describes the nature and spreading influence of a handful of wealthy, late eighteenth-century, Evangelical families (the Clapham Sect) to which were joined a cluster of Quaker and Unitarian families. They were first brought together by the anti-slavery agitation; they continued to work together in liberal and philanthropic causes; finally they intermarried simply because their children never met anyone else, forming an ever-widening cousinhood of patronage and influence. They exhibited all the familiar Puritan features. Life was a constant battle against sin disguised as pleasure. Of Sir James Stephen, Leslie Stephen's father, it was said that he 'once smoked a cigar and found it so delicious he never smoked again'. Improvement was the overriding aim – their own and the world's. Overwhelmingly conscious of time, they had little time to spare for art and beauty. Recreation was a preparation for further effort.

The opinions, attitudes, and concerns of this intellectual cousinhood formed part of the mental and physical atmosphere in which Keynes grew up. The traumatic experience of the previous generation had been the loss of religious faith. At Cambridge, Henry Sidgwick and Leslie Stephen had wrestled interminably with their 'doubts' before reaching a characteristic Victorian compromise: 'I know I believe in nothing . . . but I do not the less believe in morality', wrote Leslie Stephen. But the Puritan moral code, resting, as Quentin Bell has noted, on 'unstable psychological elements', could not long survive the loss of its religious supports and the spread of leisured affluence. Out of this cultural tradition grew both Bloomsbury's aesthetic ideal and the secular morality of upper-class socialism. The clash between the two, between psychological and social radicalism, is part of the history of twentieth-century English progressivism.

In the formation of Keynes's personal 'ethic', two names stand out: G. E. Moore and Lytton Strachey. He met them in his first term at King's College, Cambridge. They were leading lights in the Apostles, an élite discussion society to which Strachey got Keynes elected in his second term (February 1903). Of Moore's impact on Keynes there can be no real doubt. Thirty-five years later Keynes referred to the publication of Moore's *Principia Ethica* as 'the beginning of a new renaissance, the opening of a new heaven on earth', adding that 'its effect on us . . . dominated, and perhaps still dominates everything else'. This was said just after the publication of Keynes's own *General Theory*.

Moore provided his young Cambridge friends with both a method and a message. He mounted a devastating assault on the main intellectual supports of Victorian morality. Moore said that 'good' cannot be defined. Attempts to define it in terms of natural qualities he called the 'naturalistic fallacy'. He then showed that traditional morality, by identifying good with pleasant or progressive or 'willed by God', rested on the naturalistic fallacy. Of this part of the book, Strachey wrote exuberantly: 'And the wreckage! That indiscriminate heap of shattered rubbish among which one spies the utterly mangled remains of Aristotle, Jesus, Mr. Bradley, Kant, Herbert Spencer and McTaggart. . . . Poor Mill has simply gone. . . .' Having demolished the intellectual basis of traditional morality, Moore suggested that the highest goods, those 'good in themselves', are 'certain states of consciousness, which may be roughly described as the pleasures of human intercourse, and the enjoyment of beautiful objects'.

As has often been pointed out, this is a selective interpretation of Moore. Unlike Leonard Woolf, Keynes ignored the chapter dealing with conduct, in which Moore adopted the classical utilitarian standard that an action must be judged by its consequences. Here I think the influence of Strachey was important. What Moore did for Strachey was to justify an aesthetic ideal. As Michael Holroyd points out, Strachey