
Keynes’s heritage was twofold—to technical economics and to politics. I have no doubt that Keynes’s bequest to technical economics was extremely beneficial, and that historians of economic thought will continue to regard him as one of the great economists of all time, in the direct line of succession to his famous British predecessors, Adam Smith, David Ricardo, J. S. Mill, Alfred Marshall, and W. Stanley Jevons.

The situation is very different with respect to Keynes’s bequest to politics, which has had far more influence on the shape of today’s world than his bequest to technical economics. In particular, it has contributed substantially to the proliferation of overgrown governments, increasingly concerned with every aspect of the daily lives of their citizens.

Technical Economics

I do not exempt The General Theory from my judgement about Keynes’s contribution to technical economics, and can best explain why by quoting from an earlier article of mine in which I defended myself from the charge by Don Patinkin and Harry Johnson that, in Patinkin’s words, my ‘analytical framework is Keynesian’, and, in Johnson’s, that my ‘classic restatement of the quantity theory of money … is … essentially a generalisation of Keynes’s theory of liquidity preference’. ¹

The General Theory is a great book, at once more naïve and more profound than the ‘Keynesian economics’ that Axel Leijonhufvud² contrasts with the ‘economics of Keynes’. At the heart of The General Theory is an extremely simple hypothesis, although, of course, it is over-simplified. But Keynes was no Walrasian seeking a general and abstract system of all-embracing simultaneous equations. He was a Marshallian, an empirical scientist seeking a simple, fruitful hypothesis.
I believe that Keynes’s theory is the right kind of theory in its simplicity, its concentration on a few key magnitudes, its potential fruitfulness. I have been led to reject it, not on these grounds, but because I believe that it has been contradicted by experience.

*The General Theory* is profound in the wide range of problems to which Keynes applies his hypothesis, in the interpretations of the operations of modern economics and, particularly, of capital markets that are strewn throughout the book, and in the shrewd and incisive comments on the theories of his predecessors. These insights clothe the bare bones of his theory with an economic understanding that is the true mark of his greatness.

Rereading *The General Theory* has reminded me what a great economist Keynes was and how much more I sympathise with his approach and aims than with those of many of his followers. Why have economists reacted so differently to *The General Theory*?

I was myself first strongly impressed with the importance of the Chicago tradition during a debate I had with Abba P. Lerner on Keynes in the late 1940s. Lerner and I were graduate students during the early 1930s, before the publication of *The General Theory*; we have a somewhat similar Talmudic cast of mind and a similar willingness to follow our analysis to its logical conclusion. These have led us to agree on a large number of issues—from flexible exchange rates to the preferability of a volunteer army. Yet we were affected quite differently by the Keynesian revolution—Lerner becoming an enthusiastic convert whilst I remained largely unaffected and, if anything, somewhat hostile.

During the course of the debate, the explanation of this difference became crystal-clear. Lerner had been trained at the London School of Economics, where the dominant view was that the depression was an inevitable result of the preceding boom; that it was deepened by the attempts to prevent prices and wages from falling and firms from going bankrupt; that the monetary authorities had brought on the depression by inflationary policies before the crash and had prolonged it by ‘easy money’ policies thereafter; that the only sound policy was to let the depression run its course, bring down money costs, and eliminate weak and unsound firms.
In contrast to this dismal picture, the news emerging from Cambridge about Keynes’s interpretation of the depression and of the ‘right’ policy to cure it must have come like a flash of light on a dark night. It offered a far more hopeful diagnosis of the disease. More important, it offered a more immediate, less painful and more effective cure in the form of budget deficits. It is easy to see how a young, vigorous, and generous mind would have been attracted to it.

The intellectual climate at Chicago had been wholly different from that at the LSE. My teachers regarded the depression as largely the product of misguided government policy. They blamed the monetary and fiscal authorities for permitting banks to fail and the quantity of deposits to decline. Far from preaching the necessity of letting deflation and bankruptcy run their course, they issued repeated calls for government action to stem the deflation.

There was nothing in these views to repel a student, or to make Keynes attractive. On the contrary, so far as policy was concerned, Keynes had nothing to offer those of us who had sat at the feet of Simons, Mints, Knight, and Viner.

**Keynes’s Bequest to Politics**

I can best indicate what I regard to be Keynes’s bequest to politics by quoting from his famous letter to Professor Hayek praising *The Road to Serfdom*. The part generally quoted is from the opening paragraph of the letter:

> In my opinion it is a grand book … [M]orally and philosophically I find myself in agreement with virtually the whole of it; and not only in agreement with it, but in deeply moved agreement.

The part I want to direct attention to comes later:

> I should therefore conclude your theme rather differently. I should say that what we want is not no planning, or even less planning, indeed I should say that we almost certainly want more. But the planning should take place in a community in which as many people as possible, both leaders and followers, wholly share your own moral position. Moderate planning will be safe if those carrying it out are rightly orientated in their own minds and hearts to the moral issue. …
What we need therefore, in my opinion, is not a change in our economic programmes, which would only lead in practice to disillusion with the results of your philosophy; but perhaps even the contrary, namely, an enlargement of them …. No, what we need is the restoration of right moral thinking—a return to proper moral values in our social philosophy …. Dangerous acts can be done safely in a community which thinks and feels rightly, which would be the way to hell if they were executed by those who think and feel wrongly.5

Keynes very effectively convinced a much broader group than economists of the two concepts implicit in his letter to Hayek: first, the ‘public interest’ concept of government; second, the concept of benevolent dictatorship—that all will be well in society if only good men are in power. Clearly, Keynes’s agreement with ‘virtually the whole’ of The Road to Serfdom did not extend to the chapter entitled ‘Why the Worst Get on Top’.

This chapter can itself be regarded as partly anticipating one of the most important recent developments in economics, one in which many economists, notably James Buchanan, Gordon Tullock, George Stigler and Gary Becker, amongst others, have played major roles, namely, the analysis of political entities in terms strictly parallel to the analysis of market entities—the economics of ‘public choice’. That analysis treats government, civil servants, elected officials, political activists, and voters in the same way that it treats consumers, employees, and other participants in the economic market—as acting to serve their own interests, where in both cases the term ‘interests’ is to be interpreted broadly to include not only pecuniary but non-pecuniary interests, such as an easy life, ‘serving the public’, gaining power, and so on in infinite variety.

**Keynes’s Belief in Social Engineering**

Keynes believed that economists and others could best contribute to the improvement of society by investigating how to manipulate the levers actually or potentially under control of the political authorities so as to achieve ends they deemed desirable, and then persuading the supposedly benevolent civil servants and elected officials to follow their advice. The role of the voters is to elect persons with the ‘right’ moral values to office and let them run the country.
From the alternative, more realistic point of view, economists and other analysts can best contribute to the improvement of society by investigating what framework of political institutions will best assure that an individual government employee or elected official who, in Adam Smith’s words, ‘intends only his own gain … is … led by an invisible hand to promote an end that was no part of his intention’,6 and then persuading the voters that it is in their self-interest to adopt such a framework. The task is to do for the political market what Adam Smith so largely did for the economic market.

Keynes’s view has been enormously influential—if only by strongly re-inforcing a pre-existing attitude in economics. Many economists have devoted their efforts to social engineering of precisely the kind Keynes engaged in, and advised others to engage in. And it is far from clear that they have been wrong to do so. It is necessary to act within the system as it is. One may regret that government has the powers it does; a classical liberal may try his best as a citizen to persuade his fellow citizens to eliminate many of those powers; but so long as they exist, it is often, though by no means always, better that they be exercised efficiently than inefficiently. Moreover, given the system for what it is, individuals may quite properly conform and promote their interests within it. Many share my view that government should neither subsidise nor operate universities. Yet there is surely nothing wrong in their accepting employment at state universities.

An approach that takes for granted that government employees and officials work to promote in a disinterested way what they regard as the public’s conception of the ‘general interest’—that they are acting as ‘benevolent dictators’—is bound to contribute to an expansion of government intervention in the economy—regardless of the economic theory employed. A monetarist, no less than a Keynesian, interpretation of economic fluctuations can lead to a fine-tuning approach to economic policy.

**Historical Experience and Keynes’s Influence**
The persuasiveness of Keynes’s view was much enhanced in Britain by historical experience, as well as by the example Keynes himself set. Britain retains an aristocratic structure—one in which ‘noblesse oblige’ is more than an empty catch-word. What has changed is the criteria for admission to the aristocracy—if not to a complete meritocracy, at least some way in that direction. Moreover, Britain’s 19th-century laissez-faire policy produced a largely incorruptible civil service, with limited scope for action, but with substantial powers of decision within those limits. It also produced a citizenry which obeyed the law and was responsive to the actions of the elected officials who operated in turn under the influence of the civil service. The welfare state of the 20th century has almost completely eroded both elements of this heritage. But that was not true when Keynes was forming his views nor during most of his life.

Keynes’s own experience was also influential, particularly to economists. He set an example as a brilliant scholar who participated actively and effectively in the formulation of government policy—both through influencing public opinion and as a technical expert called on by government for advice. He set an example as a public-spirited and largely disinterested participant in the political process. And it is not irrelevant that he gained worldwide fame, and a private fortune, in the process.

The situation was very different in the United States. The United States is a democratic, not an aristocratic, society, as Alexis de Tocqueville pointed out long ago. It has no tradition of an incorruptible or able civil service. Quite the contrary: the spoils system formed public attitudes far more than the supposedly non-political civil service. And it did so even after it had become very much emasculated in practice. As a result, Keynes’s political bequest has been less effective in the United States than in Britain, which partly explains, I believe, why the revolution in the analysis of politics occurred in the USA. Yet even in the United States, Keynes’s political bequest has been tremendously effective. Certainly most writing by economists on government policy—as opposed to scientific and technical economics—has been consistent with it. Economists have sought to discover how to manipulate the levers of
power more effectively, and to persuade—or educate—government officials regarded as public-spirited to serve the public interest.

I offer my own experience as an example. Only recently have I come to the conclusion that the Federal Reserve System’s imperviousness to my technical advice reflects neither the wrongness of that advice nor the ignorance of the powers that be, but rather the simple fact that the self-interest of those powers and of the Federal Reserve System would not have been served by adopting that advice. Could a system that had restricted itself to maintaining a steady and moderate rate of growth in the quantity of money conceivably have acquired the prestige and influence that the System now has? Would the head of a system that had limited itself to that modest and feasible task be regarded in poll after poll as the second most powerful person in the land?

My activities directed at criticising the ‘Fed’ and advising how its powers might better be exercised may not have been a complete waste of time. But their usefulness—in my present view—has been primarily to help prepare the ground for a major reform of the System rather than to improve the operation of the present System.

Meade and Simons: Influence of Keynes

Just as Abba Lerner and I illustrate the differential influence of Keynes’s technical economics, so James Meade and Henry Simons illustrate the differential influence of Keynes’s political bequest on persons with similar characteristics but dissimilar backgrounds. Henry Simons had a beautifully clear and logical mind, was prepared to trust his abstract reasoning and to apply it to the real world, was a passionate egalitarian devoted to contributing to the improvement of society—admirable both intellectually and morally. Every one of these statements is equally valid for Meade. In branch after branch of policy they reached identical conclusions, yet their approach to government policy was very different. Meade, though younger than Keynes, grew up in a society that took an incorruptible civil service and a law-abiding citizenry for granted. During World War II, he worked closely with
Keynes and was much influenced by him. As late as 1964, he favoured continuous ‘short-run changes in monetary and budgetary policies … to maintain full employment’; and ‘measures for the equalisation and the socialisation of property ownership … to supplement rather than to replace the existing welfare-state policies’.8 This continues to be so, in modified form, today.9

Henry Simons, seeking the same objectives and sharing the same view of how the economy operated, became famous as the author of *A Positive Program for Laissez-Faire*. The difference, I long ago decided, was that his experience had been with the inefficient and incompetent state and federal civil service in the USA, and with the US citizenry, who are anything but automatically law-obedient.

As Aaron Director put it 38 years ago:

> Just as Lord Keynes provided a respectable foundation for the adherents of collectivism, so Simons was providing a respectable foundation for the older faith of freedom and equality.10

To repeat, I conclude that Keynes’s political bequest has done far more harm than his economic bequest, for two reasons. First, whatever the economic analysis, benevolent dictatorship is likely sooner or later to lead to a totalitarian society. Second, Keynes’s economic theories appealed to a group far broader than economists primarily because of their link to his political approach. Here again, Keynes, in his letter to Hayek, said it better than I can:

> Moderate planning will be safe if those carrying it out are rightly orientated in their own minds and hearts to the moral issue. This is in fact already true of some of them. But the curse is that there is also an important section who could almost be said to want planning not in order to enjoy its fruits but because morally they hold ideas exactly the opposite of yours [i.e., Hayek’s], and wish to serve not God but the devil. Reading the *New Statesman & Nation* one sometimes feels that those who write there, while they cannot safely oppose moderate planning, are really hoping in their hearts that it will not succeed; and so prejudice more violent action. They fear that if moderate measures are sufficiently successful, this will allow a reaction in what you think the right and they think the wrong moral direction. Perhaps I do them an injustice; but perhaps I do not.11
Keynes did not let this analysis prevent him from serving until his death as chairman of The New Statesman and Nation—presumably in the hope of influencing the moral views of its editors and writers. I regard Keynes’s analysis as indicating that the key problem is not how to achieve a moral regeneration but rather how either to frustrate what Keynes regarded as ‘bad morals’, or to construct a political framework in which those ‘bad morals’ serve not only the private but also the public interest, in the same way that in the economic market private greed is converted to public service.

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**Notes**


3 This and the preceding three paragraphs adapted from my ‘Comments on the Critics’, in Robert J. Gordon (ed.), *op. cit.*., pp. 133–34.

4 This and the preceding four paragraphs adapted from *ibid.*, pp. 162–63.


9 The modification to Professor Meade’s views, which he describes as the ‘New Keynesianism’, is that he calls for monetary and fiscal policies to keep the flow of total money expenditures in the economy on a steady expansionary path, and for a complicated system of setting wages by boards so as to keep output and employment high. (D. Vines, J. Maciejowski and J. E. Meade, *Stagflation, Vol. 2: Demand Management*, George Allen and Unwin, London, 1983.)
