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# Keynes, Capitalism and Public Purpose

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## Abstract

When the same person is described as a *Capitalist Revolutionary* (Backhouse and Bateman 2011) and “A Bourgeois Marxist” (Katiforis 2004), you know that there is a tug-of-war going on between opposing ideologies to claim the ideas of that person, in this case, John Maynard Keynes. James Crotty, in his recent book, *Keynes against Capitalism* (2019), joins the game. Crotty takes issue with the conventional interpretation: that Keynes was trying to save capitalism. Instead, he argues that from the mid-1920s until his death in 1946, Keynes consistently argued for replacing capitalism with “liberal socialism”. Crotty also maintains that *The General Theory* was designed to provide the theoretical foundation in support of his case against capitalism, in favour of liberal socialism. We contend that these labels, however clear they might have been to Keynes, are now laden with all sorts of interpretive baggage, and that Keynes’s thinking was rather too subtle and complex to be comfortably described by them. To make this case, we examine the social purpose that Keynes’s theoretical and policy work was designed to achieve and the means by which he thought it could best be achieved, as his thinking developed in the context of the rapidly changing times through which he lived.

**Keywords:** John Maynard Keynes, capitalism, liberal socialism, corporatism, corporate governance and purpose

**JEL Codes:** B31, N1, P1, P41

## 1. Introduction

When the same person is described as a *Capitalist Revolutionary* (Backhouse and Bateman 2011) and “A Bourgeois Marxist” (Katiforis 2004), you know that there is a tug-of-war going on between opposing ideologies to claim the ideas of that person, in this case, John Maynard Keynes. James Crotty, in his recent book, *Keynes against Capitalism* (2019), joins the game. Crotty takes issue with the conventional interpretation: that Keynes, especially the Keynes of *The General Theory*, was trying to save capitalism. Instead, Crotty argues, from the mid-1920s until his death in 1946, Keynes consistently argued for replacing capitalism with what he termed “liberal socialism”; and *The General Theory* was designed to provide the theoretical foundation in support of his case against capitalism in favour of liberal socialism.

On the surface, Crotty appears to provide extensive textual evidence of Keynes’s advocacy of liberal socialism. But closer inspection reveals that Keynes, himself, used the term only once. Indeed, we doubt, to some extent, the wisdom of trying to pigeonhole Keynes into “isms”. He was so responsive to the rapidly changing times he lived through, and had such an agile mind, that his views were both complex and evolving.

In this essay, we explore the nuances of Keynes’s vision of the purpose of economic life, on the one hand, and his programme for achieving it, on the other. On the capitalism of his time Keynes could be scathing:

The decadent international but *individualistic* capitalism, in the hands of which we found ourselves after the war, is not a success. It is not intelligent, it is not beautiful, it is not just, it is not virtuous; – and it doesn't deliver the goods, In short, we dislike it and we are beginning to despise it. (Keynes 1933, p.183, emphasis added).

But Keynes respected its efficiency as an engine of progress, arguing in “Economic Possibilities for our Grandchildren” that we should have to put up with it for some time yet – ironically because it *does* deliver the goods:

[W]e must pretend to ourselves and to everyone that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury must be our gods for a little longer still. For only they can lead us out of the tunnel of economic necessity into day light (Keynes 2010 [1930], p. 331).

Note that in the first quotation, the “capitalism” Keynes is railing against is not capitalism *per se*, but a particular kind of capitalism: one in which there is no concern for the public interest, only for individual success. We will explore this point in Section 3, after developing in Section 2 our counterargument to Crotty: that the liberal socialism Keynes advocates is a partnership between institutions of the state and a mainly capitalist structure of production, such that public purpose would take precedence over the unalloyed pursuit of private profit. It could equally well be called “reformed capitalism” or “liberal socialism”: it is a “middle way” between laissez-faire or individualistic capitalism, on the one hand, and socialism as it was then advocated by the Labour Party, on the other.<sup>1</sup>

Keynes’s work on microeconomic theory and policy, and industrial strategy, stresses appropriate structures, governance and purpose, encouraged by both state involvement in investment decisions and regulation. This is to ensure that the large joint-stock companies, which had come to dominate the industrial landscape of his time, would act in the public interest. Crotty is right to say that this work is not well known. Significantly, it touches on current debates about not only industrial strategy (Chick 2018) but also corporate governance and purpose (Konzelmann et al. 2020). This work is the subject of Section 4. In Section 5, we summarise Keynes’s distinction between the aims and means of economic life. Section 6 concludes.

## 2. Slippery words

Crotty’s main argument is that Keynes wrote *The General Theory* not “to save capitalism from the socialist, communist and fascist forces that were rising up against it”, but instead “to replace then-current capitalism in Britain with what he referred to as ‘Liberal Socialism’”, which Crotty defines as:

a planned or state-guided socialist economic system built around public or semi-public control of the lion’s share of large-scale capital investment. The state was to use its control over capital investment (augmented by capital controls) as the main policy tool to achieve and sustain full employment (Crotty 2019, pp. 1-2).

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<sup>1</sup> Skidelsky 2003, Chapter 23.

The source he cites is a January 1939 interview in *The New Statesman*. In it, Keynes suggests that laissez-faire capitalism might be replaced by “liberal socialism”; and he goes on to explain what he means by this:

The question is whether we are prepared to move out of the nineteenth century laissez-faire state, into an era of liberal socialism, by which I mean a system where we can act as an organised community for common purposes and to promote economic and social justice, whilst respecting and protecting the individual – his freedom of choice, his faith, his mind and its expression, his enterprise and his property (Keynes 1982 [1939], p. 500).

However, this is the only time Keynes actually uses the term “liberal socialism”; and although he refers to “socialism”, it is clear that what he is describing is very different from Marxist socialism, state socialism or the Labour Party socialism of his time.

Socialist thinkers of Keynes’s day, and Labour politicians who called themselves “socialists”, believed in (1) the class basis of politics (which isn’t the same as belief in revolution); (2) public ownership of the means of production, distribution and exchange; and (3) systemic redistribution of wealth and incomes. Arguments for these propositions rested heavily on the injustice of the capitalist system and the tendency for inequality to produce capitalist crisis. In short, arguments for socialism were microeconomic, which is why Keynes said that socialist economics was of no value for understanding the problems of capitalism (Skidelsky 2019a). Keynes rejected all three propositions, the first two more emphatically than the third, which was part of the policy of left-wing Liberals. In fact, fourteen years earlier, in “Am I a Liberal”, Keynes emphatically argued *against* socialism (there unqualified) as an alternative to laissez-faire capitalism: “The abuses of this epoch in the realms of government are Fascism on the one side and Bolshevism on the other. Socialism offers no middle course (Keynes 2010 [1925a], p. 304).

In looking at the variety of meanings that have been attached to the word “socialism”, we justify our contention that trying to classify Keynes as a socialist or pro-capitalist is possibly to over-simplify Keynes’s thinking. In particular, we shall argue that it is important to separate what Keynes believed should be the aim of economic activity from his recommendations of the best means for achieving that aim.

## 2.1. Keynes and “liberal socialism”

During the interwar years, Keynes wasn’t the first to use the term “liberal socialism”. It was used, especially in Italy and in Britain, to describe a democratic form of socialism; and in both countries, the form it took was strongly influenced by the context within which it was conceptualised. Italian liberal socialism emerged in opposition to Mussolini’s fascism; and from the 1920s until the mid-1940s, rather than informing policy, it was discussed at the level of its two basic principles: liberty and social justice (Martin 2002, pp. 333-4). In Britain, it involved a reworking of liberal values around socialist demands for economic equality and social justice (Thompson 2006, p. 52; Howell 2006, pp. 130-2). But the advocates of liberal socialism did not have the objective of abolishing capitalism and replacing it with socialism. Instead, they supported a mixed economy that included both private property and social ownership of capital goods; and because they recognised that capitalism gives rise to large-scale systems of production with the ability to exercise market power, they supported

government involvement and regulation to ensure that these enterprises operated in the public interest.

From this perspective, liberal socialism might be seen as overcoming exploitative aspects of laissez-faire capitalism, with a role for the state in ensuring that the capitalist economy serves its appropriate social purpose. In Britain, it emerged alongside G.D.H. Cole and R.H. Tawney's variant, "ethical socialism", which focused on criticising the ethics of capitalism. It had been fashioned in opposition to Soviet statism and played a central role in the Labour Party's proposed policies. This may explain why Keynes (a Liberal) used the term "liberal socialism" (instead of "ethical socialism") in his 1939 interview, to differentiate himself from Labour's brand of socialism, despite the resonance of ethical socialism with Keynes's critique of laissez-faire capitalism, which we discuss in Section 3.

Robert Skidelsky argues that in Chapter 24 of *The General Theory*, "Concluding Notes on the Social Philosophy Towards Which the General Theory Might Lead", Keynes updated his 1920s ideas about the "middle way" philosophy in the light of his new theory:

Excessive thriftiness could be tackled by redistributing spending power to those with a high propensity to consume (the workers). The rewards of hoarding could be lowered by fixing a low rate of interest. This would remove the scope for savers to exploit the scarcity value of capital: "the euthanasia of the rentier" would be the consequence (Skidelsky 2003, p. 537).

Because Keynes believed it was unlikely that monetary policy would be able to maintain an "optimal rate of interest", he also famously suggested that "a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment" (Keynes 1973 [1936-9], p. 378). But he goes on to explain that this does *not* mean state ownership and control of the means of production:

"[N]o 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 is important for the State to assume. If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them, it will have accomplished all that is necessary" (ibid.).

Keynes is also very clear that the socialisation of investment will not involve revolutionary change: "[T]he necessary measures of socialisation can be introduced gradually and without a break in the general traditions of society" (ibid.).

## **2.2. The danger of "isms"**

Following World War Two, to varying degrees, versions of Keynes's reformed capitalism (or liberal socialism) were put into place across Europe and in the United States. But despite the label, especially in America, "Keynesianism" bore little resemblance to the system Keynes had actually proposed; and his death in 1946 meant that he would be unable to defend it. Still, during the decades following the war, something approximating to full employment was maintained; and on the face of it at least, in spite of the emergence of unregulated Eurodollar markets during the 1950s, international capital flows were strictly regulated. This was accompanied by improvements in living standards and economic equality. In Britain, these

objectives were achieved through economic “fine tuning” and the nationalisation of large parts of industry, both of which Keynes regarded as being at least as unhelpful as laissez-faire capitalism; whilst his ideas about industrial strategy, corporate governance and public purpose (which we discuss in Section 4) were virtually forgotten.

However, there was some logic behind adoption of the term “Keynesian” to describe the post war economic system. As the Second World War morphed into the Cold War, socialism was increasingly associated with the new enemy, the Soviet Union. At the same time, the term “corporatism”, which had been widely considered during the late 1920s and 1930s as a response to the Great Depression, was quietly dropped, although there were (largely unsuccessful) post war experiments with different forms of corporatist state planning.

Corporatism, which we will return to in Section 4, lies between the collectivist and individualistic extremes of Marxist socialism and laissez-faire capitalism. It emphasises government management of the economy through consultation with the major groups in society and has some resonance with Crotty’s “liberal socialism”. Interestingly, although he doesn’t cite or refer to this in *Keynes Against Capitalism*, in a 1999 *Journal of Economic Issues* article, Crotty used much the same textual evidence to argue that Keynes was, in fact, a “corporatist”:

When Keynes heralded the death of laissez faire in the 1920s, it was not just macroeconomic policy he had in mind. He called with equal enthusiasm for the state to adopt powerful industrial policies to regulate enterprise and industry behaviour. At least in this period, *Keynes was unabashedly corporatist ... [and] to the best of my knowledge, Keynes never explicitly rejected the[se corporatist] views on industrial policy (Crotty 1999, p. 556, 575, emphasis in the original).*

But corporatism came to be associated with totalitarian regimes in interwar Germany and Italy as well as in the Soviet Union (Bratton and Wachter 2008). So after the Second World War, in spite of the Attlee Labour government’s being overtly socialist, for all practical purposes, the term “Keynesianism” was more politically acceptable than the other “isms” available at the time.

This, however, would have dire consequences for Keynes’s ideas when the “postwar consensus” proved to be no match for the crises of the late 1960s and 1970s; and the blame was assigned to Keynes, rather than where it properly belonged: to the progressive deregulation of international finance and an inappropriate role for the state. Worse still, in the various versions of “Keynesianism” that had emerged, core concepts of Keynes’s ideas had been removed and questionable ideas added.<sup>2</sup> The end result was that almost no one was really sure what Keynes had *actually* advocated; but the general view was that Keynesianism had failed. In reality, it has yet to be tried.

### **3. Keynes and capitalism**

After World War One, disillusionment with the hope that capitalism would lead to the good life had resulted in serious questioning of the legitimacy of the economic system itself, particularly with the emergence of visible alternatives in the form of communism, fascism and state socialism. The dislocation caused by the war and the enormous social, economic

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<sup>2</sup> See, for example Kahn 1984 and Robinson 1973, 1978 and 1979.

and political instability of the 1920s and 1930s generated wide-ranging debate. As part of the British Left, Keynes participated in these discussions, opposing Marxist socialism / communism and laissez-faire capitalism with equal vigour. He rejected communism because he believed that it had already failed, and laissez-faire capitalism because he thought it had proven itself incapable of supporting the common purpose required to hold society together (Markwell 2006, p. 173).

In 1923, in the *Manchester Guardian Commercial*, Keynes wrote:

Unless men are united by a common aim or moved by objective principles, each one's hand will be against the rest and the unregulated pursuit of individual advantage may soon destroy the whole. There has been no common purpose lately between nations or between classes, except for war (Keynes 1978 [1923], p. 450).

In Britain, the social pressure-point was unemployment, which during the 1920s remained stubbornly above 10 percent, with the 1926 general strike suggesting to many, including Keynes, that society was at risk of collapse (Backhouse and Bateman 2009, p. 648). The Wall Street crash three years later, and the Great Depression which followed, added fuel to existing doubts about capitalism more generally.

During the early 1930s, due to his enthusiasm for the new American President Franklin D. Roosevelt's activist "New Deal" policies, Keynes's name became associated with them – but not always positively. "[I]deological opponents denounce[ed] him as the evil genius of an experiment allegedly heading towards socialism" (Clarke 2009, p. 7). But Keynes himself was clear that he did not support replacing the capitalist system of his day with socialism. In an open letter to the President, published in *The New York Times* on 31 December 1933, Keynes set out his position:

"You have made yourself the trustee for those in every country who seek to mend the evils of our condition by reasoned experiment within the framework of the existing social system. If you fail, rational change will be gravely prejudiced throughout the world, leaving orthodoxy and revolution to fight it out. But if you succeed, new and bolder methods will be tried everywhere, and we may date the first chapter of a new economic era from your accession to office" (Keynes 2013[1933], p. 289).

Although Keynes never defined capitalism, it is clear from the things he wrote and said in other contexts, that he did not view it as either an end in itself or an idealised system based on competitive markets and the maximisation of utility and profits. Rather, Keynes conceptualised capitalism as a dynamic and non-equilibrium system, comprised of institutions that had evolved over a very long period of time and were in a state of continuous change (Backhouse and Bateman 2009). The institutions of capitalism could therefore become out of date and require modification in order to continue to meet the needs of society, whilst at the same time preserving democracy and the intellectual and cultural values of life. For example, in an exchange with George Bernard Shaw published in the *New Statesman and Nation* on 10 November 1934, Keynes criticised both Shaw and Stalin for "look[ing] backwards to what capitalism was, not forward to what it is becoming" (Keynes 1978 [1934], pp. 32-3).

### 3.1. Capitalism: A way of life or an economic system?

Keynes drew a clear line between capitalism as a way of life and capitalism as an economic system; and there is little doubt he opposed the former. Although recognising that capitalism is a system in which money plays a central role, Keynes rejected the idea that people are fundamentally economic actors, motivated by a desire to maximise wealth and profits, which he found morally objectionable. But he did believe that the problems raised by capitalism have to do with the instincts it tends to encourage, that hinder resolution of the problem of material scarcity. He was thus deeply critical of the love of money in personal life as well as money being a measure of economic success. In 1925, in “A Short View of Russia”, he wrote:

It seems clearer every day that the moral problem of our age is concerned with the love of money, with the habitual appeal to the money motive in nine-tenths of the activities of life, with the universal striving after individual economic security as the prime object of endeavor, with the social approbation of money as the measure of constructive success, and with the social appeal to the hoarding instinct as the foundations of the necessary provision for the family and for the future (Keynes 2010 [1925b], pp. 268-269).

A few years later, in “Economic Possibilities for Our Grandchildren”, he reiterated his disapproval of money-making as an end in itself:

The love of money as a possession ... [is] ... a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease (Keynes 2010 [1930], p. 329).

For Keynes, the pursuit of wealth and profit is not the same as pursuit of the good life and public purpose. In “National Self Sufficiency”, he condemned “the conception of the Minister of Finance as the Chairman of a sort of joint stock company”, with a focus on profits. Instead, he argued that the state should focus on broader objectives which serve a social purpose, such as “what, broadly speaking, shall be produced within the nation and what shall be exchanged with abroad”, so as to provide both full employment and other benefits associated with national self-sufficiency and international trade (Keynes 1933, p. 188).

### 3.2. Keynes and “individualistic” or “laissez-faire” capitalism

Keynes did not object to capitalism as an economic system, *per se*; but he was deeply critical of “individualistic” or “laissez faire” capitalism, where individualistic and laissez-faire describe both the nature of the economic system and the motivations of the people within it. This is because he recognised that the institutions of nineteenth century (laissez-faire) capitalism had become out of date and no longer served their social purpose within the context of the new economic and social structure that had emerged from the industrial revolution.

We used to believe that modern capitalism was capable not merely of maintaining the existing standards of life, but of leading us gradually into an economic paradise where we should be comparatively free from economic cares. Now we doubt whether the business man is leading us to a destination far better than our own present place. (Keynes 2010 [1925b], p. 268).



Laissez-faire capitalism is characterised by ruthless Darwinian competition among individuals in pursuit of “unlimited private money-making as an incentive to maximum effort”, which is assumed to result in maximum economic efficiency and distributional justice (Keynes 2010 [1926], p. 283).

[In laissez faire capitalism] there must be no mercy or protection for those who embark their capital or their labour in the wrong direction. It is a method of bringing the most successful profit-makers to the top by a ruthless struggle for survival, which selects the most efficient by the bankruptcy of the less efficient. It does not count the cost of the struggle, but only looks to the benefits of the final result, which are assumed to be permanent (ibid., pp. 282-283).

During the course of the industrial revolution and especially during the second half of the nineteenth century, laissez faire had served a more useful purpose than it did during the early twentieth century. It encouraged people to take risks with new technologies, to develop new ideas and to innovate in the context of a rapidly changing world. However, as the industrial revolution progressed and the pace of change began to slow and the costs of competition became an increasing burden on society. At the same time, the vastly increased urban population, especially the urban poor, meant that the scope for instability and uncontrollable social change was significantly higher. As a result, the time for laissez-faire was over; and economics could never be the same again.

Although British interwar capitalism was characterised by severe limitations on domestic economic intervention by the state, free international trade and unrestricted capital flows in the context of the gold standard, the Liberal social reforms preceding World War One had changed things significantly. The wealthy were taxed, in many cases for the first time; and with the beginnings of the welfare state, the economy behaved in unexpected ways when old and tried policies and orthodoxies were applied. Economic downturns were now automatically accompanied by rising costs of social security and falling tax revenues. In this context, any attempts to “return to normal” were doomed to failure.

Keynes, who was driven by an urge to understand how things *actually* worked, rather than by dogma, argued that if one considered the important dimensions of real-world competition as it existed then – including uncertainty about the future, economies of large scale production, increasing market power of very large monopolistic and oligopolistic enterprises, the significant costs associated with dis-equilibrium processes (including the plight of those who found themselves involuntarily unemployed or in poverty through no fault of their own), and the mal-distribution of income and wealth – the case for laissez-faire capitalism could no longer be supported.

However, Keynes also believed that capitalism could be made workable through effective regulation, with the state playing a role in articulating a democratically agreed public purpose and regulating to ensure that this was delivered.

For the most 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 a satisfactory way of life. (Keynes 2010 [1926], p. 294)

Thus, despite its drawbacks, Keynes believed that of all the economic systems available at the time, capitalism offered the most efficient means of providing the material and institutional preconditions for people to be able to choose a plan for their lives that would enable them to live the good life. But he did not see the capitalist economic system's efficiency as being automatic, natural, or beyond interference. Like anything else, Keynes believed that as the environment within which capitalism was evolving changes, capitalism could – and should – be examined, reconceived and improved. He thus envisaged capitalism changing, but with no suggestion that it would disappear and be replaced by another economic system. Its *ends*, however, needed to be turned toward the satisfaction of social needs and away from private greed.

### 3.3. Keynes and secular stagnation

Keynes observed that laissez-faire capitalism tends towards extended periods of involuntary unemployment, caused by inadequate investment due to a falling rate of expected profit and/or relatively high rates of interest and a low multiplier, and that, if unchecked, this posed a potential threat to the social and political order. From this, Crotty contends that:

contrary to the conventional wisdom, ... Keynes believed that modern capitalism was an economic system that tended towards long-term *stagnation* in the absence of historically contingent factors, such as high population growth, war or system transforming technical change (Crotty 2019, p. 371, emphasis added).

Crotty identifies this state of affairs as “secular stagnation”. He maintains that Keynes’s concern about this first appears in 1919, in *The Economic Consequences of the Peace* and continues until his death in 1946. However, Crotty admits that, to his own knowledge, Keynes himself never actually used the term “secular stagnation” (ibid., p. 200), despite its common usage at the time. He also concedes that, following the Second World War, “Keynes’s focus on the possibility of long eras of stagnation disappeared from economists’ understanding of Keynesian economics” (ibid., p. 372).

The term “secular stagnation” was first introduced by Alvin Hansen in his December 1938 address to the American Economic Association, entitled “Economic Progress and Declining Population Growth”. There he described the “essence of secular stagnation [as] sick recoveries which die in their infancy and depressions which feed on themselves and leave a hard and seemingly immovable core of unemployment” (Hansen 1939, p. 4). Hansen had observed this phenomenon in the American experience of the closing of the frontier, slowdown in population growth and lack of new capital-intensive innovations, which together reduced opportunities for the investment required to maintain full employment.

Although Hansen’s idea of secular stagnation was influenced by Keynes’s (1937) article on population growth in *Eugenics Review*, Hansen himself did not associate Keynes with the stagnation thesis (Backhouse and Boianovsky 2016, p. 951). In his review of *The General Theory*, Hansen (1936) describes Keynes as offering a theory not of secular stagnation but of “long-run underemployment equilibrium”, which focuses on the psychological and institutional aspects of investment and the rate of interest, rather than objective factors such as technical progress and demographic dynamics (Hansen 1936, pp. 678-82).

With regard to Keynes and secular stagnation, an alternative interpretation to that of Crotty is that, as the interwar years unfolded, with events continuing to evolve, Keynes's ideas also evolved, to accommodate the new evidence. Sydney Pollard (1969) describes the "stagnation psychology" that permeated interwar debates about British capitalism: "During the long peace to 1914 the certainty of material progress had become an idea widely and firmly rooted, but between the wars the prevailing belief was mostly one of stagnation, if not decline, in the economic sphere" (p. 92). Keynes would have shared this pessimistic outlook, particularly during the early 1920s.

By the early 1930s, however, Keynes was publicly optimistic about capitalism's possibilities as a dynamic evolutionary system for creating the institutional and economic preconditions for the good life. In "Economic Possibilities for our Grandchildren", he argues that the mass unemployment of the time was a "temporary phase of maladjustment. All this means in the long run [is] *that mankind is solving its economic problem*" (Keynes 2010 [1930], p. 325, emphasis in the original). And in a 1931 broadcast address, "Saving and Spending", Keynes again expresses optimism about the future of British capitalism:

Be confident, therefore, that we are suffering from the growing pains of youth, not from the rheumatism of old age. We are failing to make full use of our opportunities, failing to find an outlet for the great increase in our productive powers and our productive energy. Therefore, we must not draw in our horns; we must push them out. Activity and boldness and enterprise, both individually and nationally, must be the cure (Keynes 2010 [1931], p. 141).

In September 1931, sterling was forced off the gold standard. The resulting devaluation of sterling improved the competitiveness of British exports and transformed the context within which economic policy was made. No longer were production costs considered the root of Britain's industrial problems; and during the 1930s, the argument that wage rates were the major cause of unemployment disappeared (Dimsdale 1984).

In a 1934 letter to the *New York Times*, Keynes argued that the 1934 recession, rather than being a secular problem, was in fact a cyclical downturn resulting from an insufficiently bold policy intervention that had failed to revive confidence. And by the time he had written *The General Theory*, Keynes clearly perceived unemployment as a problem that could be successfully addressed through appropriately timed expansionary policies.

After Keynes's death, some economists, including Hansen, debated whether Keynes's *General Theory* assumed an impending state of secular stagnation. But consensus was never reached, and the debate was soon abandoned when the sustained post war expansion made the idea seem irrelevant. The debate was re-ignited during the 1970s, when doubts about capitalism re-emerged, and again following the 2008 financial crisis, which may be why Crotty, too, joins in. But from what Keynes actually wrote and said, in the rapidly changing context in which he was formulating his ideas, it seems a moot point.

#### **4. Keynes and corporate purpose, structure and governance**

Although Keynes is perhaps best known for his contributions to macroeconomic theory and policy, especially after publication of *The General Theory* in 1936, during the 1920s, he made important contributions to debates about microeconomic theory and policy. These contrast sharply with the direction taken by Neoclassical economists at the time, who were

developing static equilibrium theories of perfect, monopolistic and oligopolistic competition to explain the optimal employment and output levels of individual firms operating in these markets (Foss 1994; O'Brien 1990).

Keynes took a different perspective, viewing the economy as a system, defined by its institutions and how they function. In the Preface to the French edition of *The General Theory*, he writes:

I am chiefly concerned with the behaviour of the economic system as a whole ... [I]mportant mistakes have been made through extending to the system as a whole conclusions which have been correctly arrived at in respect of a part of it taken in isolation (Keynes 1973 [1939], p. xxxii).

During the 1930s, the general consensus was that the Great Depression was a result of the inherent instabilities of laissez-faire capitalism, and that modern corporate institutions were an integral part of the system and therefore part of the problem. The question was whether corporations should be treated as public institutions with obligations to help mitigate capitalism's inherent instabilities.

In the United States, where financiers and investment bankers exercised considerable influence on the boards of companies they invested in, the debate revolved around the question of whether a corporation's purpose is the maximisation of shareholder value (known as shareholder primacy). This meant protecting the interests of widely dispersed *majority* shareholders (who were forced by the absence of alternatives to invest their savings for retirement on the stock market) from controlling *minority* investors (financiers and investment bankers), or whether corporate managers should have the discretion to pursue social objectives.

In Britain, since financial interests did not occupy similar positions of power in large joint-stock companies, there was greater scope for acceptance of the idea that these companies should serve a public purpose, rather than being solely focused on maximising the private financial returns of their shareholders. In this context, state planning, also termed "corporatism", emerged as a potential means of addressing the severe social, political and economic problems of this period, particularly with the arrival of the Great Depression.

#### **4.1. Interwar "corporatism" – a missing category?**

As discussed in Section 2, corporatism lies between the individualist and collectivist extremes of laissez-faire capitalism and Marxist, or even interwar Labour, socialism.<sup>3</sup> It assumes private property rights and a capitalist system of production, in which the privately owned company is viewed as a public institution with obligations to help mitigate the capitalist system's inherent instability and serve the agreed "public interest". The public interest is articulated by government through consultation with the major groups in society, the two most important being industry and organised labour (where trade unions are powerful). The various groups then adapt their positions to support it.

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<sup>3</sup> For a useful discussion of corporatism as a legal and political economic system, see Bratton and Wachter 2008.

Corporatism accepts a legal model of corporate governance, where directors have a duty to manage the business and affairs of the company in accordance with clearly articulated public policies, themselves designed to achieve the public interest, even if they conflict with the property interests of shareholders. Relationships – between different groups and between the state and these groups – are cooperative; and laissez-faire competition is viewed as a destructive force that must be controlled and channelled through institutions that practice fair (but not free) competition under the watchful mediating influence of government, in order to create a stable business environment in which price levels simultaneously ensure fair wages, support high levels of employment, and yield an adequate return on invested capital (Bratton and Wachter 2008).

During the late 1920s and 1930s, the idea of corporatist economic planning was a central theme of the recovery debate in Britain, advanced by many, spanning the entire political spectrum of the day, as an alternative to both the discredited system of laissez-faire capitalism and state socialism.<sup>4</sup> In this, Keynes's ideas played a central role, with the 1928 report of the Liberal Industrial Inquiry (LII), *Britain's Industrial Future (BIF)*, setting the pattern for much of British thinking about economic planning during this period. Perhaps the clearest expression of British corporatism, which embodies Keynes's little-known ideas about industrial strategy, corporate governance and purpose, can be found in this book,<sup>5</sup> known as the "Yellow Book" because of the colour of its cover.

As discussed in Section 2, above, Crotty (1999) argues that Keynes was, in fact, a corporatist. But in *Keynes Against Capitalism*, he uses the same textual evidence to support the book's main argument:

*"BIF is crucial to the defence of the main policy thesis of this manuscript. It is, so to speak, the "smoking gun" of the argument"* (Crotty 2019, p. 96, emphasis in the original).

By contrast, we argue below that Keynes's interest in industrial strategy and corporate governance related to how they might be used to contribute to his overall objective of the good life.

#### **4.2. Keynes, industrial strategy and the "Yellow Book"**

The 1926 general strike/coal dispute was the catalyst that shifted Keynes's interests towards Britain's industrial and social problems and how best to address them through industrial strategy.<sup>6</sup> In the same year, the Liberal Party leader David Lloyd George financed the Liberal Industrial Inquiry (LII) to carry out a detailed study of the British economy, with the assistance of leading economists and businessmen. As part of the LII Committee, for the next eighteen months, Keynes engaged in a detailed empirical investigation of key British

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<sup>4</sup> See, for example, Carpenter 1976 and Ritschel 1991. In 1926, Keynes had also written an article drawing upon his work on the difficulties confronting Britain's cotton industry in *The Nation and Athenaeum*, with further publications and commentary on this topic continuing until 1929 (Keynes 1981 [1926-1929], pp. 578-637).

<sup>5</sup> See Chick 2018 for a further discussion.

<sup>6</sup> See Moggridge 1992, Chapter 18 "Industry and Politics", pp. 446-74.

industries; and he was a major contributor to the resulting report.<sup>7</sup> Much of his microeconomic thinking is encapsulated in this (now largely overlooked) body of work, which implicitly assumed that macroeconomic policy plays a crucial role in providing the appropriate economic environment within which microeconomic industrial policy could be successful in delivering on its public purpose.

*Britain's Industrial Future* begins by articulating its authors' vision of a broad-ranging, "multi-sided" industrial strategy and the *purpose* of both industrial and public policy generally. The overall purpose of the Inquiry is stated at the end of the Introduction:

The measures we advocate in relation to... financial and industrial reforms, international trade and national development, the just distribution of wealth, the worker's right to be a citizen, not merely a subject in the world of production... spring from one clear purpose. We believe with a passionate faith that the end of all political and economic action is... that individual men and women may have life, and that they may have it more abundantly. (LII 1928, p. xxiv)

This reflects Keynes's overall vision of the purpose of public policy being aimed at enabling people to live the good life, which is a theme that runs throughout all of his policy proposals – microeconomic as well as macroeconomic.

Like Keynes, the LII Committee, many of whom had direct experience of industry, explicitly acknowledged that laissez-faire capitalism had run its course and that the destructive consequences of free market competition meant that capitalism required state management and regulation to be effective: "The theory that private competition, unregulated and unaided, will work out, with certainty, to the greatest advantage of the community is found by experience to be far from the truth" (ibid., p. xix). Whilst there was comparatively little social cost from the collapse of small proprietorships or partnerships with unlimited liability as a consequence of unregulated competition, this was certainly not the case with larger firms; and unregulated competition could hardly solve the economic problems of large joint-stock companies, where shareholder ownership was separated from managerial control over their day-to-day operations.

Keynes had argued in "Am I a Liberal", that the growth of large firms, trade associations and trade unions had rendered the classical model of the competitive market obsolete (Keynes 2010[1925a], pp. 303-4); and like other Liberals, he feared that without constructive state intervention, these corporate institutions might conflict or collude against the public interest.

As Keynes saw it, the state's harmonizing role – its "Agenda" – in the modern economy took two distinct forms. On the one hand, it should integrate corporate bodies

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<sup>7</sup> As well as being a member of the Inquiry's Executive Committee and Chair of the Committee on Industrial and Financial Organisation, he drafted Book 2, *The Organisation of Business*; wrote two chapters ("Currency and Banking" and "Reform of the National Accounts") as well as collaborating on the two further chapters ("The Burden of Taxation" and "Rating Reform and the Rating System") of Book 5, *National Finance*. Keynes also endorsed Lloyd George's proposals for specific public investment programmes in Book 4, *National Development*; and he co-authored the "Summary of Conclusions" section and edited the report as a whole. (See Crotty 1999, p. 569; Crotty 2019, pp. 96-97; Harrod 1951, 392-93; Moggridge 1992, 457-59; Skidelsky 1992, 264-69).

into the state, especially by transforming the most powerful private firms into semi-autonomous public corporations. On the other hand, it should also exercise “directive intelligence” over the economy as a whole through the control of currency and credit and the coordination of savings and investment. If government did not take these decisions, they would not be taken at all (Sloman 2015, pp. 39-40)

The Committee took care to distinguish their proposed new industrial order from the extremes of

the harsh individualism and the employer autocracy of the nineteenth century, which Socialist preachers mostly have in mind when they denounce “Capitalism”... [and] the scheme of rigid State control or the scheme of trade-union dictatorship, between which the vague dreams of socialism waver (ibid., p. 205).

The Committee’s proposals placed a strong emphasis on cooperation – between state and industry, between different industries and between employers, employees and customers – to deliver the twin objectives of “efficiency in production and justice in distribution” (ibid., p. 215). The outcome, however, is very different from the “control” of industrial production that is typically considered a defining characteristic of socialism. The network of relationships described in the Yellow Book means that the state has *influence* (as opposed to control), with the government articulating a vision for the future of the economy and then working closely with businessmen and workers to facilitate realisation of that vision. It described the “new industrial order... as a system of industrial self-government under the regulation and encouragement of the State” (LII 1928, p. 205), involving “the substitution of an organised system of co-operation for the existing system of conflict... [with] steady and wise guidance continued through a long period” (ibid., pp. 219-20). This guidance would be provided by:

a properly organised department of State... [and] some organ representative of industry as a whole, to afford leadership and stimulus in the development of the *machinery of co-operation*, to keep continuously in mind the interaction of industries one with another, and ensure that the direction of industrial policy in this field shall not merely be political or bureaucratic in character. (ibid., emphasis added)

Corporate governance reform is another important component of the LII’s proposed industrial strategy. However, the LII’s proposals on this topic reveal that Keynes’s ideas about public concerns requiring better governance, state involvement and regulation to ensure that they serve a public purpose were evolving as the interwar years progressed and seismic events unfolded.

In 1926, Keynes had argued that “[o]ne of the most interesting and unnoticed developments of recent decades has been the tendency of big enterprise to socialise itself” (Keynes 2010 [1926], p. 289) – a trend he thoroughly approved of. In his view, when a large joint-stock company reached a certain age and size, its shareholders would become “almost entirely dissociated from the management”, by virtue of the widely dispersed nature of share ownership. At this point, he believed that management would be more interested in:

the general stability and reputation of the institution [than] ... the maximum profit for the shareholders. The shareholders must be satisfied by conventionally adequate dividends; but once this is secured, the direct interest of the management often consists

in avoiding criticism from the public and from customers of the concern. This is particularly the case if their great size or semi-monopolistic position renders them conspicuous in the public eye and vulnerable to public attack. (ibid.)

Large joint-stock institutions would therefore over time approximate the status of “public corporations”, serving a public purpose rather than “individualistic private enterprise” (ibid).

However, after spending nearly two years as part of the LII Committee and observing at first-hand the challenges of corporate governance in large joint-stock companies with widely dispersed shareholder ownership, Keynes’s ideas had evolved; and in the Yellow Book it was proposed that for “those companies which have passed out of the effective control of their shareholders... and those companies which have attained... something of a monopoly position and where free competition from newcomers is inefficient” (ibid.), corporate governance reform was required. This aimed at improving reporting transparency, strengthening the responsibility and authority of the external Auditor, and reforming the board of directors by introducing a German-style dual board structure, with the Management Board to include outside members with technical expertise, and a “Supervisory Council... representing the shareholders and, in some cases, the employees” (ibid., p. 91). The Committee went on to contend that:

[i]t would be an incidental advantage of this system ... to make provision for the representation of employees on exactly the same footing (though not necessarily with an equal voting power) as the shareholders, without allowing to either employees or the shareholders any undue or inconvenient powers of interference with the daily management of the concern (ibid., pp. 91-2).

However, following the Wall Street Crash of 1929, unemployment in Britain ballooned, as the financial crisis morphed into the Great Depression. The increased scale of the problem of unemployment combined with concerns that business confidence might be damaged by loan-financed public works. This prompted a return to the orthodox diagnosis of Britain’s economic problems. By the summer of 1930, Liberals were questioning whether public works would stimulate economic activity in the way Keynes had suggested (Sloman 2015, p. 77); and – although by late 1931, his optimism would return – even Keynes, who by this point was a member of the government’s Economic Advisory Committee, appears to have become more pessimistic, believing that “the effect of [the Liberal national development schemes] on unemployment and business psychology would be very small compared with what their effect would have been before the world depression began” (quoted in Sloman 2015, p. 57).

According to Michael Hart,

“Whereas in 1929 the Liberal programme had received the active support of progressive businessmen, academics and economists, this consensus quickly broke up. By late 1930 or early 1931 ... none of either Keynes, Henderson, Brand or Stamp any longer agreed with the 1929 proposals with which their names were associated” (Hart 1982, p. 369).

Keynes’s attention thus turned towards developing his *General Theory* and away from the questions of industrial structure, governance and purpose, never to return.



### 4.3. Was Keynes a “corporatist”?

British corporatism had initially emerged as an approach to crisis-avoidance, in response to the problems created by working-class political and economic unrest during and after the First World War (Booth 1982). In this context, a tripartite negotiating framework involving industry, organised labour and the state was established. Industry was given access to government, which facilitated the development of economic policies favourable to industrial stability and rationalisation; and organised labour was assigned a role in representing and advancing the interests of the working class. This ultimately proved useful in averting some of the causes of social and political instability which were also plaguing other European countries during this period.

However, although the *idea* of corporatism as a form of national economic planning and an alternative to both laissez-faire capitalism and state socialism held broad acceptance across the political spectrum, there was profound disagreement about the nature of the planned economy and the distribution of power among democratically elected political authorities, organised labour and industry within the corporatist structures of planning (Ritschel 1991).

The Great Depression exposed divisions not only in the capitalist class (between finance and industry), but also within industry (between exporters and home market suppliers, as well as between employers and organised labour) and within labour (between workers in the declining export industries and the new industries). Following the Armistice, four key groups – financial interests, industrialists, labour and government – competed over policy (Booth 1982, 1987). The City fought to restore the gold standard and return London to its position as a leading centre of international finance. Industrial employers were divided between those seeking a continuation of the wartime pattern of consensual bargaining and those hoping for the return of managerial prerogatives and laissez-faire policies. Organised labour was also split between moderates wanting to consolidate wartime political and material progress and those seeking revolutionary change. And although the postwar coalition government promised reform, the Treasury was determined to regain control over public expenditure through prewar orthodoxy. Since these widely divergent goals could not be reconciled by consensus, the direction of British policy was determined by conflict, which only served to polarise classes and weaken those occupying the centre political ground (Booth 1987).

Thus, although the idea of corporatist state planning had broad appeal, in practice, it was impeded by the fractious relationship between finance and industry; the unwillingness of the various groups to fully involve organised labour; and the prioritisation of narrow sectional interests over the interests of the economy and society as a whole. Moreover, because the 1929 general election did not result in a Liberal government, Keynes’s ideas about industrial strategy and corporate purpose and governance embodied in the Yellow Book – effectively the Liberal Party’s manifesto – were never actually tried out in any systematic way.

It isn’t referenced in *Keynes Against Capitalism*, but Crotty (1999) argues that Keynes was a corporatist; and he quotes Skidelsky’s contention that Keynes believed “a new partnership had to be established between the government and the private sector to match the growing *corporatism* of industry (Skidelsky 1992, p. 231, emphasis added). Crotty goes on to suggest that “Keynes would have more to say in support of corporatism soon” (2019, p. 76); but he doesn’t explicitly follow this up.

In many places, Keynes advocates “state” or “national” planning, but he never uses the term “corporatism”; and whilst *Britain’s Industrial Future* elaborates detailed proposals for industrial strategy, its explicit recognition of the importance of protecting the industrial system from political interference qualifies the government’s role and elevates the role of experts, industrialists and mediating institutions.

In March 1932, Keynes delivered a radio lecture, later published as “The State and Industry”, in which he emphasises the difference between state planning and the hard forms corporatism was taking in Europe:

There is a new conception in the air today – a new conception of the possible functions of government ... It is called planning – state planning: something for which we had no accustomed English word for even five years ago. It is not Socialism; it is not Communism. We can accept the desirability and even the necessity of *planning* without being a Communist, a Socialist or a Fascist. (Keynes 1982 [1932], p. 84, emphasis in the original).

He then goes on to explain the difference:

[S]tate planning ... differs from Socialism and from Communism in that it does not seek to aggrandise the province of the state for its own sake. It does not aim at superseding the individual within the fields of operations appropriate to the individual, or of transforming the wage system, or of abolishing the profit motive. Its object is to take deliberate hold of the central controls and to govern them with deliberate foresight and thus modify and condition the environment within which the individual freely operates with and against other individuals (*ibid.*, p. 88).

But he does not condemn experimentation with corporatist state planning:

It may be that other countries will enjoy the rare opportunity of seeing three experiments carried on simultaneously, differing vastly on the surface yet each directed to the solution of the same essential problem – the Five-Year Plan in Russia; the Corporative State in Italy; and state planning by Public Corporations responsible to a democracy in Great Britain. And as lovers of our species, let us hope that they will be successful (*ibid.*, p. 92).

However, a year later, in “National Self-Sufficiency”, Keynes raises concerns about the forms corporatism was taking, or might soon be taking, in Europe:

In those countries where the advocates of national self-sufficiency have attained power, it appears to my judgment that, without exception, many foolish things are being done. Mussolini may be acquiring wisdom teeth. But Russia to-day exhibits the worst example which the world, perhaps, has ever seen of administrative incompetence and of the sacrifice of almost everything that makes life worth living to wooden heads. Germany is at the mercy of unchained irresponsibles – though it is too soon to judge her (Keynes 1933, pp. 188-9).

Given the wide range of interwar proposals, as well as experiments, with corporatist ideas, not only in Britain but also in the United States under the New Deal and in Europe, as it is with “liberal socialism”, trying to assign such a label to Keynes’s ideas about industrial

strategy risks misinterpreting not only his microeconomic theory and policy but also its integral inter-relationship with his macroeconomic theory and policy. Corporatism does reflect Keynes's line of thought during the 1920s, particularly his framing of a middle way philosophy *before* he had developed the macroeconomic theory of the *General Theory*. After that, he dropped it: His reference to the "socialisation of investment" in the *General Theory* can't support either a corporatist or a socialist interpretation of his attitude (Skidelsky 2019b).

## 5. Aims and Means

For Keynes, economics was only a means to an end. The goal was to live the good life, to savour beauty and friendship. The role of the economic system was to provide for basic needs so that participation in the good life was possible. It played a supporting, secondary role:

It is useless to suppose that we can pursue ideal justice regardless of ways and means in the economic world. No one can look at the evolution of society and not admit to himself that some measure of social injustice has been the necessary condition of social progress ... The task of the statesman is to see to it that the best possible compromise is achieved between our ultimate aims and our practical means of achieving them (Keynes 1981 [1927], p. 639).

But economic life should meet social criteria too. At the micro level, work should not be oppressive or meaningless. At the macro level, much could be done to mitigate the economy's capriciousness and instability. In any case, the value system of *laissez faire* was inimical to the good life: It created an ethos of materialism, fostered wants that go well beyond what is needed for the good life, and created discontent; it therefore needed to be brought under social control.

Narrowing down to the economy, Keynes's aims appear mixed: he wanted "social justice" (Keynes 1982 [1939], p. 500), "whilst preserving efficiency and freedom" (Keynes 1973 [1936-9, p. 381]). Social justice is a socialist aim, while efficiency and freedom are buzzwords of *laissez faire*. But the aim of social justice was paramount, and the aims of efficiency and freedom were more obviously manifest in his chosen means, of which in a moment.

Keynes wanted the best of both worlds and the downsides of neither: to reform the economic system toward the aim of social justice while keeping the best properties of private enterprise. He was implacably against nationalisation and implacably against *laissez faire*. How can such a man be pigeonholed as socialist or pro-capitalist? Keynes's proposed means of achieving a better economy were equally mixed. There were, of course, several fronts.

At the micro level, he praised the many and various forms of "public concerns" that existed at the time, although in many cases he believed their efficiency could be improved. For those enterprises in private hands, the aim of maximising profit – of the pursuit of money for its own sake – Keynes found repellent. The aim of a private enterprise should be to produce a good and useful product, while keeping all members of the company engaged and valued in their work. This could not be done under *laissez faire*, where management and workers were set at odds with one another, and the only declared purpose of the company was profit-maximisation. If necessary, legislation could be used to impose better values. But Keynes was emphatically against nationalisation of the means of production. He saw the private company as having the capacity to innovate and to organise production efficiently. These properties he wished to retain.

At the macro level, Keynes's main concerns were employment and the stability of investment. On both counts he proposed greater involvement of the state. As an immediate response to high unemployment, he proposed a programme of public works, using the skills of the unemployed to build houses, infrastructure and productive capacity. His longer-run concern was that under *laissez-faire*, investment was carried out sporadically and led to unnecessary fluctuations in aggregate income. For this he proposed a "somewhat comprehensive socialisation of investment" (Keynes 1973 [1936-9, p. 378]). The state would be a regulator of the *rate* at which investment projects would call upon the capital markets for finance, evening out fluctuations caused by waves of optimism and pessimism in the minds of entrepreneurs and improving the stability of income and employment. Most decisions about the direction of investment, apart from those with a direct social dimension, could be left to entrepreneurs.

These programmes were a blend of social concern at their heart and a mixed strategy for their accomplishment, retaining but civilising capitalist enterprise. Any attempt to pull Keynes into the socialist or capitalist camp is to simplify and distort his complex message.

## 6. Conclusions

*Keynes Against Capitalism* is an interesting and thought-provoking book that surveys all of Keynes's major works and draws attention to many of his lesser-known contributions. Particularly important among these are Keynes's vision of the dynamics of capitalism, the importance of social purpose, and the interrelationship between micro- and macroeconomic theory, policy and outcomes.

Nearly a century after Keynes was evolving these ideas, and more than a decade after the 2008 financial crisis, confidence in capitalism has again been severely shaken. This is in no small part a consequence of recurring waves of corporate scandals and growing social, economic and political instability resulting from the return to *laissez-fair* capitalism during the 1970s and 1980s. The idea of secular stagnation has also been revived; and socialism is making a come-back, with outspoken political proponents on both sides of the Atlantic, including Jeremy Corbyn in Britain and Bernie Sanders in the United States, and membership of the Democratic Socialists of America (DSA) surging from 6,500 in 2014 to 56,000 in 2019 and 85,000 in 2020.<sup>8</sup>

We therefore conclude by returning to the question of Keynes's ideas about capitalism and public purpose, and the influence of the fast-changing world in which he was developing them, on the evolution of those ideas. During the first half of the 20<sup>th</sup> century, seismic events were the rule rather than the exception; and Keynes was continually changing and adapting his views in the light of a constant flow of new information. So just because Keynes advocated a particular theory or policy at one point in time, doesn't necessarily mean he would favour it at another.

This was also a time when various experimental economic and political systems were being tried out; and terms like capitalism, socialism, fascism and corporatism, all of which meant different things to different people at different times and places, were being used to describe them, often retrospectively and frequently inaccurately. Thus, trying to label Keynes's ideas

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<sup>8</sup> See, for example, DSA 2020, DSA 2017, and Gambino 2019.

with any sort of “ism” is almost bound to misrepresent what he actually meant. Even his essay “Am I a Liberal?” stopped short of producing a definitive answer; so the idea of a commitment to liberal socialism – which Keynes only ever mentioned once – seems unlikely.

Looking at what Keynes *actually* wrote, in the light of the unstable and challenging times he was living through, it is difficult to argue that he was against capitalism *per se*. Nor did he advocate overthrowing capitalism and attempting to replace it with something else. This was partly because he was opposed to revolutionary reform, especially in the light of the events he was witnessing in Russia, Italy and Germany, as well as Britain, and partly because he saw capitalism as a dynamic and evolutionary system. In Keynes’s view, with effective state management (as opposed to control), it had the potential to deliver economic efficiency and the material and institutional preconditions for people to live the good life, whilst also preserving the social and cultural benefits he valued. If the institutions of capitalism were structured appropriately and working effectively, it could also serve its public purpose, an idea which extends to the industrial system, where regulation is an expression of the state’s public purpose to serve society.

Following the Liberal party’s defeat in the 1929 general election, Keynes’s attention turned away from microeconomic policies to developing the macroeconomic framework required to inform policy aimed at economic and price stability and full employment. But this didn’t mean that he believed questions of industrial organisation and governance were no longer important; from Keynes’s perspective, the performance of the microeconomic (industrial) system is dependent upon the stability and vitality of its macroeconomic environment. During the late 1930s and early 1940s, his health failed; and his final years were dominated with the practicalities of planning a war economy and constructing the post-war international economic system for peace afterward. So Keynes didn’t have time to formally synthesise his ideas about micro and macroeconomic policy. But given his systemic view of the economy – and his perspective on the relationship between economic aims and means – it is clear that he would have seen his microeconomic and macroeconomic theory and policy as going hand in hand.

In their own way – and in the social, political, economic and institutional context of the early decades of the twentieth century – globalisation, free markets and light-touch regulation contributed to the devastating events that produced two world wars, with the Great Depression in between. Keynes recognised this; and he sought to reform capitalism so as to make it work both more efficiently and more fairly, such that people could live the good life, eventually free from the economic problem of material need.

Indeed, after the Second World War, the managed capitalism of the so-called “Keynesian” revolution – in which domestic and international financial markets were tightly regulated – delivered three decades of unprecedented improvements in economic equality and living standards. However, since the 1970s and 1980s, across the industrial world, the return to *laissez-faire*, and the unleashing of international corporations, markets and finance, set into motion similar forces to those of Keynes’s time; and he would not have been surprised by the events that followed. From the arrival of the Great Depression, Keynes became a critic of both free trade and unrestricted international capital flows; and he “would not have been an enthusiastic globalizer” (Skidelsky 2009, p. 185). But, as he did throughout his lifetime, were he alive today, Keynes would have developed pragmatic policy proposals appropriate to the social, political, economic and institutional circumstances of our times.

Thus, rather than simply looking for solutions in what Keynes wrote, it is at least as important to consider the way he thought and approached problems: keeping an open mind, assessing new information as it became available and not being afraid to change his mind when the evidence suggested he should. It is also worth remembering that Keynes's guiding star – the “good life” for as many people as possible – was consistent with his view of capitalism and public purpose. So a reconsideration of Keynes's evolving ideas about capitalism in response to the rapidly developing economic, social and political conditions of his time has the potential to offer some very timely lessons for today.

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