

KEYNES PRAISING HAYEK

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There is no better proof, perhaps, of the way that the disputes between John Maynard Keynes and Friedrich von Hayek have come to occupy the popular mind than the well-known rap video, “Keynes vs. Hayek” (2010) which has been viewed more than 8 million times on YouTube. The two rappers playing Keynes and Hayek are bombastic and (verbally) attack each other repeatedly. It is difficult to imagine that the popularity of the video isn’t due, at least in part, to the fact that it so vividly pictures a clear antagonism between the two economists.

But was their relationship bombastic or antagonistic? Certainly, their disagreements about economic theory in the 1930s were contentious and pointed, though even here their differences can be exaggerated.¹ However, what is more significant is that Keynes said that he was in “deeply moved agreement” with Hayek’s classic tract on the political economy of managed capitalism, *The Road to Serfdom* (1944).

In June 1944, Keynes took a copy of Hayek’s newly published book with him to read on his transatlantic trip to attend the Bretton Woods negotiations. When the ship landed in Atlantic City on June 28, Keynes wrote Hayek:

My dear Hayek,

The voyage has given me the chance to read your book properly. In my opinion it is a grand book. We all have the greatest reason to be grateful to you for saying so well what so much needs to be said. You will not expect me to accept quite all the economic dicta in it. But morally 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. (*JMK*, 27, 385)²

So much for bombast and antagonism.

To be clear, as Keynes pointed out in the passage quoted above, the two had differences about economics, and Keynes went on to outline what he believed those were. The two most important of these being that Keynes believed that significant prosperity was on the horizon and, also, that some forms of government intervention in the economy (planning) worked better than Hayek believed. But Keynes also revealed that they shared some economic beliefs, in particular the importance of profits to the

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- 1 For more on the earlier theoretical disputes between Keynes and Hayek in the 1930s, see Harrod (1951, 435-36) and Moggridge (1992, 531-34). Skidelsky (2006), comparing the two economists, notes how little they engaged each other on economic theory, and emphasizes the role of the Second World War in bringing them together, noting that Hayek endorsed Keynes’s analysis of how to control inflation during wartime.
- 2 We follow the standard convention in this paper of citing Keynes in reference to his *Collected Writings* in the format: *JMK*, followed by the volume number, and finally the page number.

capitalist system. Keynes even reported to Hayek that he thought he could have gone further in making this point.

One point which perhaps you might have pressed further is the tendency today to disparage the profit motive while still depending on it and putting nothing in its place. The passage about this on page 97 is very good indeed; could not be better; but I should like to have seen this theme a little more expanded. (*JMK*, 27, 386)

This last quotation needs to be put in context. On the one hand, it clearly reveals that Keynes accepted the role of the profit motive in making capitalism work effectively. On the other hand, Keynes abhorred the love of money and his most pointed criticism of capitalism was of what he termed “individualistic capitalism”, by which he meant the single-minded pursuit of profits at the expense of broader social values.³ Thus, Keynes placed himself in an unusual position for an economist: appreciating profit as a necessary part of capitalism, but at the same time believing that it could be pursued to an undesirable end.

The question remains, however, what were the moral and philosophical grounds upon which they agreed? Although Keynes does not say so in so many words, the basic answer is that, like Hayek, he was committed to liberal ideas, believing that the individual has important rights to personal autonomy. Keynes, of course, came from a liberal home, and in adult life he was active in the Liberal Party. In several well-known essays, he made clear the depth of the philosophical convictions that separated him from both the Conservative and Labour parties. He completely repudiated socialism.⁴

The gist of Hayek’s argument, however, was not which party a person belonged to, but the question of whether a state entrusted with managing capitalism (e.g. planning) would eventually misuse its power to deny its citizens the basic freedoms of liberal democracy. As a committed liberal, the prospect of freedom being undermined horrified Keynes as much as it did Hayek. Thus, when Keynes thanked Hayek “for saying so well what needs to be said,” he was thanking him for articulating the threat posed to individual freedom. Like Hayek, Keynes saw the potential threat to liberal values implicit in an enlarged, more fully empowered state.

However, Keynes was less pessimistic than Hayek regarding the strength of liberal values in the face of the expanding economic functions of the state. Whereas Hayek argued that “as soon as one moves an inch in the planned direction you are necessarily launched on the slippery path which will lead you in due course over the precipice”, Keynes believed that “[m]oderate planning will be safe if those carrying it out are rightly orientated in their own minds and hearts to the moral issue.” Thus, Keynes wrote that “planning should take place in a community in which as many people as possible, both leaders and followers, wholly share your own moral position.” (*JMK*, 27, 387). Keynes saw the possibility of those with liberal values being a bulwark against the state, whereas Hayek saw liberal values as being under serious threat.

This explains why we find at the end of Keynes’s life (he died two years after his letter to Hayek) that he did not understand himself as a bombastic antagonist of Hayek’s. Rather,

3 For a discussion of Keynes’s thoughts on capitalism, including discussion of his unpublished notes from the 1920’s for a future work on capitalism, see Backhouse and Bateman (2009) or (2011).

4 In the 1920s, Keynes wrote three essays bearing on his liberal beliefs: “Am I a Liberal?” (1925), “Liberalism and Labour” (1926), and “The End of Laissez-Faire” (1926). These essays are collected in his well-known *Essays in Persuasion* (1931), reprinted as *JMK* 9.

he understood himself as sharing deep liberal values with Hayek. This did not preclude disagreement because, as adherents of liberal values, they sought open and respectful exchange of their differences. Keynes believed that demand management was necessary; Hayek did not. Keynes believed in a larger welfare state; Hayek believed in a smaller welfare state. Keynes believed liberals could serve as a bulwark against totalitarianism; Hayek believed that liberals would be swept away by totalitarianism.⁵ And yet, for all their differences, the two men saw the value of principled disagreement. For after all, they were both liberals.

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"...the class war will find me on the side of the educated bourgeoisie."

J. M. Keynes in his essay *Am I A Liberal?*

„... v triednom boji ma nájdete na strane vzdelanej buržoázie.“

Keynes v eseji *Som liberál?*

5 Judt (2010, 91-106) provides an excellent explanation of how their different personal (national) backgrounds shaped the two men's different outlooks on the strengths and weaknesses of the liberal state.

