

Historical Notes

Keynes, social democracy and the Great Moving Right Show

Scott Newton

Zachary Carter's quite excellent recent biography of the economist J. M. Keynes¹ makes a convincing case that the economist was *the* crucial figure in the creation of British social democracy. Starting in the early twentieth century as an Asquithian new Liberal, he moved after World War One to develop a whole new social philosophy and agenda for economic policy on the centre-left. This was reflected in successive Liberal Party general election manifestos after 1929 and became the predominant (though not the only) politico-economic discourse in the Labour Party from 1935 until 1997. It went into eclipse during the era of 'New Labour' (barring a brief revival in 2008-10) but was rehabilitated during the years of the Jeremy Corbyn's leadership (2015-20). Some elements of Keynesianism have survived the arrival in power of Keir Starmer's Labour Party, but his government's first months in office have been characterised by significant retreats on this front.

Keynes and Moore

As a young man, Keynes (born in 1883) embraced what became known as the 'new Liberalism', which became increasingly influential in the Liberal Party at the start of the twentieth century. It evolved from classical, Gladstonian liberalism, which held that the object of good government should be the promotion of individual liberty. This was held to flower most abundantly in a society committed to free trade, freedom of expression, freedom of worship, national sovereignty and peaceful co-operation between nations. The role of the state was to be limited. There were circumstances when an extension of its powers was necessary, as (for example) with factory legislation and with the 1870 Education Act, which established elementary schooling for all children between 5 and 13 in England and Wales. The default position, however, was non-intervention, especially in economic affairs. Here, *laissez-faire* was best. The leading figures in political economy from Adam Smith (1723-1790) had all agreed that personal freedom and the general happiness was best assured when the size and functions of the state were small, its responsibilities including

¹ Zachary D. Carter, *The Price of Peace. Money, Democracy and the Life of John Maynard Keynes* (New York: Random House, 2021).

law and order and defence but excluding interference with property rights, freedom of expression, freedom of worship and freedom in the market place.

Classical liberals held that non-interference with market forces on the part of the state was essential. These were the engine of a healthy society, guaranteeing that in conditions of free competition the successful producers would always be the ones who made useful goods for the public at a price people could afford. Businesses who failed to pass this test would fail. The successful entrepreneurs, making money by satisfying the consumer, would become rich, building up fortunes which not only led to great personal wealth but financed the investment which renewed and modernised their factories. The pursuit of profit by private individuals generated wealth and employment. It worked to the benefit of all, satisfying the needs of the citizens and maximising welfare as it did so. It was accepted that there were times when overproduction led to factory closures and unemployment, but these periods were always short. The price of unused goods, labour and capital would fall to a level which would lead to market clearance and allow the cycle of investment, production and consumption to resume. The system always tended to full employment and there was no need to mess with it via state intervention to mitigate unemployment or stimulate activity. This would undermine individual initiative and lead to economic dysfunction.

By the end of the nineteenth century it was obvious that Gladstonian liberalism was failing. The rewards of the enormous wealth generated by the great innovations and industrial achievements of the Victorian era were enjoyed mainly by the landowning aristocracy, successful industrialists and bankers, and by the legal and medical professionals who serviced the needs of this ruling class. At the same time, many of the industrial workers and farmers, without whose labour the economy would not have functioned, experienced great poverty. They lived in bad housing and insanitary urban environments which fed the spread of diseases such as typhus and tuberculosis. This combination of industrialisation and glaring social inequality led to the growth of trade unionism and popular interest in radical and socialist politics which aimed to shift the balance of power in society towards the working class and away from the owners of land and capital. Given the expansion of the electorate (following the 1867 and 1884 extensions of the franchise), politicians seeking popular support could not ignore social and economic issues even if their consciences had allowed them to, and a 'new liberalism' developed in response to the changing times. The pioneers of this school were philosophers such as T. H. Green (1838-1882) and Liberal politicians such as H. H. Asquith (1852-1928) and Herbert Samuel (1870-1963). These figures rejected the individualism and *laissez-faire* of classical liberalism, arguing that it had not brought social

harmony and maximised welfare. This did not lead them to reject all the principles of classical liberalism. They still held that free trade and free competition were the engines of modernization, and that as long as the costs and prices of factors of production were allowed to adjust to fluctuations in demand, depressions would be short-lived and self-correcting. At the same time, however, the new Liberals supported collective action to reduce poverty and promote social reform, along with limited state intervention in the economy to protect wage levels and reduce monopoly power. They argued that society was not simply a collection of individuals but an organic community in which personal freedom and happiness could only be enhanced, not set back, by state intervention in economic and social questions. They advocated old age pensions, state health and unemployment insurance, labour exchanges, minimum wage legislation, free school meals, municipal housing, the regulation and, if necessary, public ownership of monopolies, and progressive taxation. Much of this agenda was enacted by the Liberal governments led by Asquith after 1906, which laid the foundations of the British welfare state.

Keynes, who had studied not economics but mathematics and philosophy as a student at Cambridge, shared the outlook of Asquith and Samuel, became friends with them both and campaigned for the Liberals in pre-war elections. He never repudiated new Liberalism but he did come to move beyond it under the influence of his philosophical studies and convictions. These were heavily influenced by the ideas of the Cambridge philosopher G. E. Moore (1873-1958), who had taught him. The outlook Keynes developed as a young man in the years before 1914 then guided his approach to economics and politics for the rest of his life (he died in 1946).

Moore's work focused on the question of 'goodness'. This could not be defined or analysed, any more than one of the colours in the spectrum. On the other hand, it was clear from simple observation that goodness existed, just as colours did: Keynes understood from his own experience at pre-1914 Cambridge and then as a member of the Bloomsbury Group, that people knew and felt goodness, leading to 'good states of mind', at various times in their lives, whether in the form of – for example – personal affection, beauty or pleasure in great art and literature. This view that goodness could be rooted in individual experience contradicted the main principles of Victorian liberalism, which, following the utilitarian philosophy of Jeremy Bentham, identified it with 'happiness', defined as the satisfaction of self-interest, usually in the form of accumulating private wealth. For Moore, and, following him, Keynes, this was a confusion of ends and means. Happiness was a means and goodness was the end: in other words, happiness was necessary to the end of achieving good states of mind in people. But individuals all had their own versions of goodness:

there was no overall, transcendent 'good' which fitted every case any more than there was just one type of happiness which worked for all.

Keynes took these ideas further in his own contribution to philosophy, the *Treatise on Probability*, which discussed how a society tending to higher levels of goodness could be achieved. Arguing that there was a 'truth beyond experience', he held that humanity would never construct a complete system of knowledge, not even through scientific endeavour. The best that science could do was to provide a probable account of knowledge, based on observation and classification. This conclusion allowed Keynes to reject on two grounds the claims of utilitarians and Victorian liberals that it was possible, through the 'science' of political economy, to know how the economy and society worked.

First, such understanding was beyond the capacity of science; and secondly, simple observation of what was actually happening revealed that their 'knowledge' was not only limited but deeply flawed. Classical liberalism was supposed to guarantee peaceful relations between nations. But it had failed to prevent the outbreak of war in 1914. After 1918 it had not provided any useful explanation of, let alone any humane and practical remedy for, economic instability throughout most of Europe and long-term mass unemployment. In Britain this never fell below 10 per cent of the workforce from May 1921 until the end of the decade, after which it started to rise dramatically from even that high figure, reaching 23 per cent of the insured workforce in 1932. The evidence of events led Keynes to conclude that nineteenth century liberalism was a failed and redundant creed, and that the conditions which had allowed it to flourish had been founded on temporary historical circumstances which no longer applied. This was the argument which led him to write *The Economic Consequences of the Peace* in 1919 and his 1926 essay *The End of Laissez-Faire*.

Keynes's Good Society

The turbulence and dislocation of the post-World War One era was clearly very bad for human happiness and goodness, breeding poverty, political extremism, revolution and fascism. Moore had focused on personal, individual states of mind. He had not located this private world within a socio-economic and political context. Keynes, however, became convinced that the world of Moore which had brought him such happiness, and which he still regarded as the basis of a good civilization, could only be reconstructed by a politicised and socialised version of Moore's thinking which sought to remove all the conditions which prevented individuals from experiencing good states of mind. For Keynes, no other version of the philosophy would be capable of creating the world he had glimpsed before 1914. His activities for the last twenty years of his life were

dedicated to the construction of a society conducive to good states of mind in all its citizens.

The fundamental characteristics of Keynes's good society were pulled together for the first time in his work for the Liberal Party, led by David Lloyd George, in the late 1920s. They were revealed in its 1929 general election manifesto, *We Can Conquer Unemployment* and the supporting pamphlet, *Can Lloyd George Do It?*, which he co-authored with fellow economist H. D. Henderson. Writing from the conviction that 'employment was important for its own sake, a social good which the economy should provide',² he advocated loan-financed public spending to abolish involuntary unemployment through a three year 'National Development' scheme costing £100 million per annum (about 2.5 per cent of the annual national income). This involved the expansion and modernization of the road and rail network, along with investment to create a national telephone system, rural electrification, slum clearance and the construction of 1 million new homes. In an anticipation of the multiplier theory (fully developed by his student R. F. Kahn in a 1931 article for *The Economic Journal*), Keynes pointed out that the stimulus would be cumulative, as the workers who were being hired would then come to spend money themselves, creating more jobs and therefore more expenditure in response to their demand for goods. Thus the road building programme alone was expected to generate 850,000 new jobs in direct and indirect employment, with the house building, telecommunications and rural development components of the scheme each creating a further 150,000 jobs. The tax revenues generated by this process would pay for the borrowing undertaken by the state to finance the work in the first place.

This amounted to a wholesale repudiation of *laissez-faire* economics and was a dramatic extension of New Liberalism's hitherto somewhat limited interventionism. It reflected a lack of confidence in the capacity of the private sector to improve Britain's economy and society on its own. But there was more to this vision than a technocratic dissatisfaction with the inefficiency and waste involved in managing a twentieth century industrial society on the basis of nineteenth century politico-economic assumptions (although such sentiments did form part of Keynes's thinking). As Zachary Carter points out, the concern for nature revealed in *Can Lloyd George Do It*

gave away the game. Something had to be done to protect nature precisely because human beings were doing too much, not too little. Undirected commercial life was making the world an ugly, depleted

² Alan S. Milward, 'Keynes, Keynesianism and the International Economy', *Proceedings of the British Academy*, 105 (2000), p. 242.

place to live in. Keynes was calling for a new government role in the economy that would replace private industry with public action – and he had not worked out a principled limit to the government's sphere of activity.³

Implicit in the document was a critique of capitalism. This had not featured in New Liberal thinking before 1914. During the course of the 1920s, however, Keynes developed a distaste for many aspects of the capitalist system. He came to despise its ethics and its culture, lamenting its materialism, legitimization of personal greed and tendency to despoil the environment.⁴ These sentiments did not, however, lead him to conclude that the wholesale replacement of capitalism by what he called 'state socialism' was either necessary or desirable. This was not because he was anti-socialist. For Keynes the problem with traditional socialism was twofold: first, he felt that modern industrial economies like Britain's tended naturally towards socialism anyway, thanks to the expansion of the large corporation and the joint stock company. It was still true (he wrote in 1926) that 'many big undertakings' (notably public utilities) 'need to be semi-socialised',⁵ in the form of semi-autonomous public corporations. But in organizations such as the BBC, the Bank of England, the Port of London Authority, 'the big utility enterprise' and 'big insurance' firms, and even the railway companies, Keynes identified a tendency 'of big enterprise to socialise itself'. Shareholders faded into the background as these corporations were increasingly run by a bureaucracy concerned not with great profits but with organizational stability, growth and public reputation.⁶ Secondly, he believed

³ Carter, *The Price of Peace* (see note 1), p. 174

⁴ In 1933 Keynes wrote that '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.' See his article 'National Self-Sufficiency' in *The Essential Keynes*, edited with an introduction and commentary by Robert Skidelsky (London: Penguin Books, 2015), p. 87.

⁵ Keynes, 'The End of Laissez-Faire', *The Essential Keynes* (see note 4), p. 56.

⁶ Karl Marx had spotted this trend some 50 years earlier. Writing in the 1870s and 1880s, he suggested in *Capital* volume III that capitalism had started to evolve into a system of 'associated production' thanks to the centralisation of credit and the rise of the joint-stock company, in which corporations controlled by managers and workers would replace those run by their owners, now being transformed into numerous inactive shareholders. The potential would be there for a transition to production on a co-operative basis gradually to become generalised throughout the global economy. (See Karl Marx, *Capital: Volume III* [London, 1991], ch. 27, pp. 566-74). This is ironic, since Keynes had something of a blind spot about the work of Marx. The point was also made in the Anthony Crosland's classic text arguing the case for social-democratic revisionism, *The Future of Socialism* (2nd ed., London: Jonathan Cape, 1964) and in J. K. Galbraith's *The New Industrial state* (2nd ed. London: Penguin, 1974).

this process of natural evolution, encouraged where necessary by the state, was preferable to outright nationalisation which transformed corporations into departments of government. This conviction was reinforced by what he observed on two visits to the USSR in the 1920s. He had been sympathetic to the efforts of the Bolsheviks to establish a new kind of social order ⁷ but became dismayed by what he saw. Observation led him to conclude that their large-scale state ownership of enterprise had boosted a bureaucratic interference in the economy and society which led to growing dysfunctionality and inefficiency. It worked against the decentralisation and self-management which allowed firms to respond quickly to changing market conditions. At the same time it had undermined individualism, private property and freedom of thought and initiative, propelling society towards totalitarianism as a result.⁸ He always accepted that there would be occasions when it would be necessary for the state to take over firms for the sake of the public interest: but this was to be decided pragmatically and not on the basis of what he considered to be socialist dogma.⁹

There was, then, no need to replace private ownership of the means of production by public ownership. Keynes continued to believe that for all its faults, capitalism, in the socialised form into which it was evolving, remained the most effective system for the generation of wealth. Suitably managed by the state, it was capable of leading the world into an age of abundant goods, along with leisure and culture for the masses, in which the working week would fall to just 15 hours.

In his 1930 essay, 'Economic Possibilities for our Grandchildren',¹⁰ he looked a century ahead, seeing in the future a world in which 'the daily interests and ideas of citizens would be able to take priority over the requirements of material sustenance and the drudgery of mindless wage work'.¹¹ It was a vision which bore some striking similarities to Marx's vision of a Communist society, where 'society regulates the general production' and scarcity would cease to

⁷ See his 'A Short View of Russia' in *The Essential Keynes* (see note 4), pp. 65-75.

⁸ Robert Skidelsky, *John Maynard Keynes: The Economist as Saviour, 1920-37* (London: Macmillan, 1992, pp. 235-6).

⁹ In 1934 Keynes suggested to President Roosevelt that nationalization of the railways and the utilities could reinforce an ambitious programme of public investment in the USA, by guaranteeing 'equipment upgrades, line expansions and a busier train schedule'. (Carter, *The Price of Peace* [see note 1] p. 294).

¹⁰ See 'Economic Possibilities for Our Grandchildren', *The Essential Keynes* (see note 4) pp. 75-85.

¹¹ Carter, *The Price of Peace*, (see note 1) p. 199.

exist, ending all need for the division of labour: 'nobody has one exclusive sphere of activity but each can become accomplished in any branch he wishes'.¹² The trick was managing a 'transition from economic anarchy to a regime which deliberately aims at controlling and directing economic forces in the interests of social justice and social stability'.¹³ This was 'the true destiny of New Liberalism',¹⁴ which Keynes sought to reinvent, attempting to turn the Liberal Party into a proto-social democratic organization embracing 'massive government investment programmes' and deficit spending capable of delivering economic modernization, environmental improvement and the elimination of unemployment and poverty.¹⁵

Rewriting economic theory

The agenda first glimpsed in 1929 grew to embrace the expansion of social security, provision of free universal medical care (while working at the Treasury in World War Two, Keynes backed Sir William Beveridge's proposals for the establishment of 'cradle to the grave' social protection and a National Health Service)¹⁶ and the management of the economy so that there was always full employment.¹⁷ The urgency of this task grew during the years of the Great Depression, as the misery caused by the persistent failure of capitalism led to public disillusionment with democracy and growing support for fascism and communism in Europe. The only hope seemed to come from the New Deal being attempted by President Franklin D. Roosevelt's administration in the USA. Keynes was from the start a highly enthusiastic supporter. He applauded its commitment to reforming capitalism rather than abolishing it. There was plenty of improvisation and trial and error involved in the New Deal, but Keynes reckoned its mix of interventionism, public investment programmes and deficit finance (all measures he had recommended in a British context in *Can Lloyd George Do It?*) would lead to economic recovery from the Slump and preserve liberal democracy in the process. After 1933-34 unemployment in the USA and the UK did start to fall and recovery became evident in much of Europe by the mid-1930s. But (Nazi Germany being an exception) high levels of joblessness

¹² Karl Marx, *The German Ideology* (1845), Marxist Internet Archive (<https://www.marxists.org/archive/marx/works/1845/german-ideology/ch01a.htm>).

¹³ See John Maynard Keynes, 'Am I a Liberal?', *The Essential Keynes* (see note 4) p. 64.

¹⁴ See note 3.

¹⁵ Carter, *The Price of Peace* (see note 1) p. 171.

¹⁶ The report on *Social Insurance and Allied Services*, (London: HMSO, Cmd. 6404, 1942).

¹⁷ Keynes reckoned this would mean in practice unemployment between 3 and 5 per cent of the workforce. See Robert Skidelsky, *John Maynard Keynes: Fighting for Britain, 1937-1946* (London: Macmillan, 2000), pp. 272-3.

continued to exist and activity was erratic. Contemporary economic theory could not provide an account of why the crisis had become so long-lasting, nor a route out of it. The absence of such an explanation and of any academically approved remedy meant that Keynes's alternative strategy remained heretical, not backed by established opinion in the universities, in corporate industry or in the City of London. Successive governments were unpersuaded and avoided borrowing to increase state spending, seeing the establishment of confidence in the markets through balanced budgets and an avoidance of economic experimentation as key to any sustained upturn in economic activity.

Keynes therefore set out to rewrite economic theory, to explain what had gone wrong and why a strategy of the type he had been advocating since the late 1920s would provide the foundation of the stable, socialised capitalism working for the public good as it did so. During his time working with Lloyd George, Keynes was working on his *Treatise on Money*, published in 1930.¹⁸ The *Treatise* argued that savings and investment could fall into disequilibrium as a result of over-saving. Under the gold standard system operating in the late 1920s, this could follow from the measures taken by the banking system to prevent gold reserves leaving the country in response to a rise in imports and a slump in exports. The banking system had to prevent this situation from developing very far, and did its job through tight domestic credit policies and high interest rates which restricted demand, and, therefore, imports. It was obliged to go down this path even if the internal economy needed investment and the funds were there to provide it. As a result, wealth owners could earn more than they did by investing it at home either by exporting capital or by leaving their money in bank accounts. This was the situation that had developed in the UK with sterling's return to the gold standard in 1925 at an overvalued rate. To reverse this tendency to over-saving, it was necessary for governments to embrace public investment programmes, borrowing and cheap money (low interest rates) to raise the level of demand and encourage private spending. Keynes's work on the *Treatise* therefore provided a theoretical background for the Liberals' call in 1929 for a state-led, reflationary national development programme.

Although the Lloyd George-Keynes strategy of 1929 was not adopted, after 1931 the National Government did follow a series of measures which Keynes believed would expand domestic demand. Britain left the gold standard (in the autumn of 1931), let the sterling exchange rate against the dollar float down, introduced cheap money and introduced a tariff to protect the home market. His confidence in the potency of these steps shows in a British Movietone

¹⁸ John Maynard Keynes, *A Treatise on Money* (Martino Books: Mansfield Center, Connecticut, 2011).

newsreel of October 1931, just after the departure from gold.¹⁹ Recovery, however, was slow. But its very sluggishness, combined with the insights of Kahn's multiplier thesis, led Keynes to see that the argument of the *Treatise* was incomplete. Economics needed a new analytical framework, set out in his *General Theory of Employment, Interest and Money* (1936)²⁰ which explained what was actually happening in the real world. For a start, there was in fact (he realised) no imbalance between savings and investment, no pool of unused savings which could accumulate so that it exceeded spending on investment. Savings (as Kahn's argument had shown) were a *proportion of income*. When income and spending fell, savings naturally declined with them (and the reverse also applied: when income and spending rose, so did savings). It meant that savings and investment were in fact always in equilibrium, but the point at which they balanced would be just one of many such points on the scale of economic activity and need not be consistent with high or full levels of employment. This happy state would only be reached if there was enough demand in the economy to ensure that the factors of production operated at or near full capacity.

What would deliver this result? The classical and neo-classical economists had argued that market forces would do the job if left to themselves. In times of depression, interest rates would fall so low that spending on investment would increase automatically. But the evidence suggested this process was not working. Keynes concluded that it was frustrated by what he called 'liquidity-preference',²¹ which kept investment weak even when borrowing rates were low. Why? Keynes's answer to this question involved the abandonment of economic orthodoxy, embodied in the quantity theory of money, in which money is held to be simply a medium of exchange. Instead he moved back to the mercantilist idea, common in Europe from the fifteenth to the eighteenth centuries, that money was just one part of a wealth holder's portfolio of assets, and that there were times when it would be profitable to hoard cash – stay liquid – rather than invest it. In other words, in the absence of any demand conducive to a revival of 'animal spirits' on the part of investors, wealth holders would be unwilling to part with cash and entrepreneurs unwilling to borrow it, even when interest rates were low. In these bear market conditions, with dwindling expectations of buoyant economic activity, they could do better for themselves by selling shares and holding onto money in their own bank

¹⁹ See <<https://www.youtube.com/watch?v=0PYSFqCSsGU>>.

²⁰ John Maynard Keynes, *The General Theory of Employment, Interest and Money* (Cambridge: Macmillan Cambridge University Press, 1973 edition).

²¹ Keynes, *The General Theory* (see note 20) pp. 166-74, especially pp. 170-74.

accounts (or by converting it into other assets where speculative returns were good).²² It followed that the economy was stuck in a low-level equilibrium: low levels of demand for goods and capital meant low levels of output and employment, leading in turn to low incomes, low spending on consumption and investment, and low savings. Cheap money offered no escape from this trap; there was no necessary link between the interest rate and the level of investment. Breakout from low-level equilibrium could only occur once governments acted to raise demand via loan-financed public investment programmes, supplemented by progressive taxation to redistribute income to the working class (which had a higher propensity to consume than the wealthy). This would drive the economy towards an economic equilibrium operating at a high level of demand for goods and capital, a high level of output and employment, high incomes and high spending on consumption and investment. Under this regime capital would continue to grow, 'up to the point where it ceases to be scarce'. The 'rentier aspect of capitalism would disappear', leading to 'euthanasia of the rentier',²³ a prospect Keynes anticipated with enthusiasm.

The *General Theory* not only provided a theoretical basis for what Keynes had been advocating since the late 1920s, but also a new model economic theory which broke away from the old classical framework. In doing so, it abolished the injustices and instability of capitalism. In a *New Statesman* article of 1939 Keynes characterised the political philosophy behind his programme as

liberal socialism, by which I mean a system where we can act as an organised community for common purposes and to promote social and economic justice, whilst respecting and protecting the individual - his freedom of choice, his faith, his mind and its expression, his enterprise and his property.²⁴

The old system was to be replaced by a new paradigm and a new political agenda, in which the maintenance of full employment of resources by the state, along with measures to reduce inequality, were means to the creation of the good society.

Building New Jerusalem

The publication of *The General Theory* in 1936 did not represent Keynes's last word. His project remained a work in progress, and underwent refinements during the wartime years, when he was an unpaid advisor at the Treasury. In

²² Keynes, *The General Theory* (see note 20) ch. 15.

²³ Keynes, *The General Theory* (see note 20) p. 376.

²⁴ Carter, *The Price of Peace* (see note 1) p. 350.

this capacity he became involved in planning for the post-war era, both in domestic and external policy. His activities on the external front were largely occupied in negotiations with the USA, initially about Lend-Lease and later concerning the establishment of Anglo-American agreement on an international financial architecture supportive of national full employment policies.²⁵ At home he was involved in formulating budgetary strategy for both the wartime years and for the period of reconstruction. His major concerns were reorganisation of the national finances to pay both for the war and for the period of reconstruction, with responsibilities extending to participation in the development of the government's White Paper on *Employment Policy*²⁶ and to backing the proposals for the creation of a comprehensive system of national insurance and a National Health Service envisaged in the Beveridge Report.²⁷ Keynes set out the principles underpinning all this not just in Treasury memoranda but in a number of BBC broadcasts reaching out to the public, one example of these being a talk of April 1942 on 'How Much Does Finance Matter?'. Here, he points out that once the essential task of rebuilding the export industries had been achieved, government spending in the post-war years would be characterised by 'urgent and necessary outgoings on housing the people, on reconstructing industry and transport and on re-planning the environment of our daily life'.²⁸

With a big programme carried out at a properly regulated pace, we can hope to keep employment good for many more years to come. We shall in fact have built our New Jerusalem out of the labour which in our former vain folly we were keeping unused and unhappy in enforced idleness.²⁹

²⁵ These proved to be rather fraught and (from Britain's point of view) not wholly satisfactory, especially the talks on the post-war international financial order. See for example, Skidelsky, *John Maynard Keynes: Fighting for Britain* (see note 17) chs. 11 and 12; and Scott Newton, 'A Visionary Hope Frustrated: J. M. Keynes and the Origins of the Postwar International Monetary Order', *Diplomacy and Statecraft*, 11 (2000), pp. 189-210.

²⁶ *Employment Policy* (London: HMSO, Cmd. 6527, 1944).

²⁷ See Carter, *The Price of Peace* (see note 1), pp. 363-4, and Skidelsky, *John Maynard Keynes: Fighting for Britain* (see note 17), p. 280-6. Keynes's wartime work did not centre only on economic and social issues. He was appointed first Chairman of the Arts Council and in this capacity sought to bring significant government backing to the promotion of culture, aiming not for its preservation as an elite activity but for the 'democratization of fine living'. (Carter, *The Price of Peace* [see note 1], p. 366).

²⁸ 'How much does finance matter?', *The Listener*, 2 April 1942. In *Collected Works of John Maynard Keynes* (Cambridge: Cambridge University Press, 1978) XXVII, pp. 264-70.

²⁹ *Collected Works* (see note 27) p. 270.

Keynes derided the common sense notion that all this would cost too much. 'Anything we can actually *do*, we can afford', he explained. The maintenance of high demand and employment along with government borrowing at low rates of interest would make the project financially sustainable.

The implications of this 'big programme' for post-war reconstruction were striking. It was going to be dependent on the maintenance of a total volume of national expenditure (that is consumption plus investment) capable of generating full employment.³⁰ This was likely to evolve through three phases. The first, which he expected to last five years (though admitting that the figure was 'anybody's guess'), would be characterised by exceptionally high demand for spending on investment, requiring restrictions on the volume of consumption 'by rationing and the like', to offset a tendency for inflation to develop. The second, likely to take between five and ten years, would see a growing abundance of capital and therefore a tendency for spending on investment to weaken, requiring the state to step in with a stabilisation policy in which between two-thirds and three quarters of all investment would be undertaken by 'public or semi-public bodies'. The third would be characterised by capital satiation and therefore weak demand for investment spending. Total spending would then have to be raised to a level consistent with full employment. This meant changing 'social practices and habits', discouraging saving and encouraging 'wise' (rather than 'wasteful') consumption via a shortening of the working week, increased leisure, and more holidays ('a wonderfully good way of getting rid of money'). The 'golden age' foreseen in 'Economic Possibilities for Our Grandchildren' would have arrived.

Keynes, of course, was one of many involved in planning reconstruction and the shape of post-war British society. A range of political and economic philosophies and traditions went into the version embraced by the Attlee government and indeed successive Labour and Conservative administrations all the way to 1979. Nurtured by over a century of humanistic and religious teaching, and a respect for the rights of the individual citizen stretching back to the seventeenth century, they were propelled onto the political agenda as a result of two total wars and the transformation of the working class into a powerful political force, with its unions and its own political party. Yet Keynes's contribution to this moment was central. In his own work he brought together much of what characterised these different traditions into a synthesis which not only set the agenda for Britain's future but provided the tools to build it.

³⁰ See J. M. Keynes, 'The Long-Term Problem of Full Employment', 25 April 1943, in *Collected Works of John Maynard Keynes* XXVII (see note 28) pp. 320-5. All subsequent quotations in the paragraph are from this source.

By the time Keynes died in 1946, the political and economic landscape had changed completely, a development he would certainly have attributed to his conviction that 'it is ideas, not vested interests, which are dangerous for good or evil'.³¹

The Great Moving Right Show

Britain's history since 1979 allows us to question this confidence. The period after 1945 had seen governments of both main political parties succeed in organizing the resources of society, despite great difficulties, so that they provided British citizens with jobs, houses, medical treatment free at the point of need and education up to the age of 15. In doing so they presided over an increase in living standards unparalleled in the history of the British people.³² The battle of ideas since the late 1970s has, however, seen the return and triumph of laissez-faire ideology, now sometimes called 'neoliberalism', along with all the melancholy accompaniments (growing inequality, poverty, profound economic instability, periods of mass unemployment and environmental despoliation) of free enterprise capitalism. Almost ninety years on from the publication of *The General Theory*, conventional wisdom in the print and broadcast media, and in many universities, tends to regard Keynesian economics as conducive to unsound experiments liable to generate inflation and undermine free markets. Theresa May's criticism of Labour's spending proposals in the 2017 General Election, that 'there was no magic money tree', may not have persuaded the 40 per cent of the turnout who voted for them (a 10 per cent increase on Labour support in 2015), but remains the considered opinion of 'responsible' politicians, columnists and financiers.

This counter-revolution against Keynesian social democracy was foreseen in a 1943 essay written by Michal Kalecki, a Marxist economist whose work had led him to conclusions very similar to those of Keynes. Kalecki anticipated a reaction against lasting full employment on the part of employers, on the grounds that it would cause the workers 'to get out of hand'. In consequence, 'a powerful bloc is likely to be formed between big business and rentier interests', backed by orthodox economists, calling the position 'unsound' and advocating government spending cuts.³³ Although the assault on social democracy started in the 1940s with the promotion of libertarian ideas by a growing number of US business groups, and was accorded some intellectual

³¹ *General Theory* (see note 20), pp. 383-4.

³² Scott Newton, *Profits of Peace. The Political Economy of Anglo-German Appeasement* (Oxford: Oxford University Press, 1996).

³³ See, Michal Kalecki, 'Political Aspects of Full Employment', in *The Last Phase in the Transformation of Capitalism* (New York: Monthly Review Press, 2009), pp. 75-84.

legitimacy by Hayek's *Road to Serfdom* (1944) and the Mont Pelerin meeting of 1947, it remained on the margins of the political agenda throughout most of the advanced capitalist world until the late 1960s and early 1970s. It was not until these years that economic liberalism re-entered the mainstream, notably in the USA and the UK. In both countries it was promoted and driven by multinational capital, notably by the international firms and financial corporations which had become increasingly powerful and wealthy since the late 1950s.³⁴ In the British case it was given a helping hand by elements embedded within the state, notably the military and security and intelligence agencies, reluctant to embrace the end of Empire.³⁵ Using allies in the press, politics and higher education, these forces have fought a war for the accumulation of profits and the weakening of the working class organisations and social democratic governments whose brief hegemony after 1945 facilitated the construction of the good society Keynes had been working for since the 1920s. Assisted by a takeover of university economics departments by neoclassical dogma and corporate business sponsorship,³⁶ their ideas have become hegemonic, a process identified by the sociologist Stuart Hall as 'the Great Moving Right Show',³⁷ capturing the British political mainstream and embracing not only the Conservative Party but (after 1994) Labour into the bargain. The Liberal Democrats, who had remained faithful to the Keynesian tradition, abandoned it once they had a chance of government in alliance with the Conservatives after 2010.

The neoliberal supremacy even survived the shock of the 2008-9 Crash. Governments briefly embraced Keynesian solutions to avoid the collapse of the global financial system before returning to the free market ideology and policies which had caused the problem in the first place.³⁸ When Labour sought to return to Keynesian social democracy in 2017 and 2019 it was accused of flirting with far left ideas and financial irresponsibility. These were baseless

³⁴ See Scott Newton, *The Reinvention of Britain 1960-2016. A Political and Economic History* (London: Routledge, 2017).

³⁵ See Stephen Dorril and Robin Ramsay, *Smear! Wilson and the Secret state* (London: 4th Estate, 1991); Newton, *The Reinvention of Britain* (see note 33) ch. 4; and 'Historical Notes on Tom Nairn and the British state', in *Lobster* 85 (2023) at <<https://shorturl.at/Fan20>> or <<https://www.lobster-magazine.co.uk/article/issue/85/historical-notes-on-tom-nairn-and-the-british-state/>>.

³⁶ A process discussed in Joe Earle, Cahal Morgan and Zach Ward-Perkins, *The Econocracy* (Manchester: Manchester University Press, 2017).

³⁷ Stuart Hall, 'The Great Moving Right Show', *Marxism Today*, January 1979, pp. 14-20 at <<https://banmarchive.org.uk/marxism-today/january-1979/the-great-moving-right-show/>>.

³⁸ See for example Newton, *The Reinvention of Britain* (see note 34) pp. 230-48.

allegations.³⁹ They reflected a profound ignorance about recent history and economics on the part of politicians and the print and broadcast media: but this ignorance was itself an indication of how far the political climate had changed since 1979.

Joan Robinson, a 1920s pupil of Keynes who became a very good friend and a highly distinguished economist in her own right, said that 'The great trouble about Keynes was that he was an idealist'. She meant by this that ideas were not enough. The world has frequently seen 'vested interests' successfully undermine and reject reforms beneficial to all, even if this means accepting 'a dysfunctional status quo, as long as it maintained their place at the top of the social pecking order'.⁴⁰ The period since 1979 is the latest example of this process. If British social democracy is to revive it needs its own Great Moving Left Show, namely both a programme compatible with the 'liberal socialism' of Keynes himself and credible measures to shift the balance of class power, rebuilding the coalition of working class and professional groups which sustained it through the post-war decades. This would not include the current Labour government's welfare cuts and scaling back of the Green New Deal. It would involve a more generous and socially progressive political discourse, rooted in the notion that 'Anything we can actually *do*, we can afford'. This would permit (for example) greater flexibility in the exercise of 'fiscal rules' and measures to increase taxes on the wealthy, especially those ferreting their money away in tax havens where £570 billion (just over 20 per cent of the UK GDP) was languishing in 2022.⁴¹ Keynes's ghost would certainly applaud.

Scott Newton is Emeritus Professor of Modern British and International History at Cardiff University.

³⁹ See Steven Parfitt, 'The Centrist Suicide Note', *Jacobin*, 28 June 2017 <<https://jacobin.com/2017/06/jeremy-corbyn-michael-foot-1983-election-labour>>.

⁴⁰ See Carter, *The Price of Peace* (see note 1), p. 147.

⁴¹ Tax Policy Associates report, 27 May 2022: 'UK taxpayers have £570bn in tax haven accounts', <<https://taxpolicy.org.uk/2022/05/27/crs-evasion/>>. See also Nicholas Shaxon, *Treasure Islands: Tax Havens and the Men Who Stole The World* (London: Vintage, 2011).