

# PHILOSOPHICAL PERCEPTIONS AND THE PRECEPTS OF POLITICAL ECONOMY: FRIEDRICH HAYEK AND JOHN MAYNARD KEYNES

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## I

### INTRODUCTION

There has been no greater, more persistent, more influential, more resolute critic of John Maynard Keynes than Friedrich Hayek. He has opposed Keynes the man, whom he regarded as morally deficient;<sup>1</sup> Keynes the economist, whom he regarded as largely ignorant

before he started to develop his own theories, Keynes was not a highly trained or a very sophisticated economic theorist (Hayek, 1978, p. 284)

and 'Keynesianism' the system of analysis, which he regarded as a terrible mistake:

Sir John Hicks has even proposed that we call the third quarter of this century, 1950 to 1975, the age of Keynes, as the second quarter was the age of Hitler. I do not feel that the harm Keynes did is really so great as to justify *that* description (Hayek, 1978, p. 219).

Although subsequent controversy was heightened by the presumption of Keynesians who

implicated Keynes's system with their own theoretical inconsistency and philosophical shallowness (FitzGibbons, 1988, p. 153),

the paradigm of Keynes's *General Theory* led others to promulgate and to popularise a simultaneous equation macroeconomic model which Hayek considered to be devoid of merit.

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<sup>1</sup> Although flattering remarks (Hayek, 1978, p. 287 *ff.*) indicate an appreciation of Keynes's great intellect, elsewhere is the warning that 'intelligent people will tend to overvalue intelligence' and that morality cannot be based upon a constructivist rationality. In seeking a rationalist emancipation from traditional morals, Keynes remained a self-confessed immoralist throughout his adult life. (See Hayek, 1988, pp. 53-8, and also Tomlinson, 1990, p. 4.)

The details of the broad sweep of the respective conclusions reached by Hayek and Keynes, concerning the proper relationship between government and the economy, have been widely documented and discussed, but there is little recognition of a shared philosophy. An opportunity to redress this omission comes with the publication of two important studies—Athol FitzGibbons's *Keynes's Vision* (1988) and Chadakitis Kukuthas's *Hayek and Modern Liberalism* (1989)—which, when taken together, reveal striking similarities between the two men. One interesting feature of the background to the close parallels which exist is that, whereas Keynes reached strong philosophical conclusions long before he gained his reputation in economics, Hayek articulated his philosophy only after his reputation as an economist had suffered from the debates with Keynes and his followers.<sup>2</sup> Further, much of Hayek's exposition was given as an explicit counter to Keynesian economics and the *dirigiste* systems which it encouraged.

## II

### BACKGROUND

In the ten years or so to the mid 1930s, Hayek and Keynes gave attention to the relevance of money in determining the level, and variations in the level, of business activity. Each had recognised the crucial importance of uncertainty and had used the instrument of money to incorporate this vital force into economic analysis. Hayek's ideas were set down in two publications. His *Monetary Theory and the Trade Cycle* was published in 1929, with the first English version in 1933, and *Prices and Production* was published in 1931, with a revised and extended edition in 1935. In the later version, Hayek acknowledged the incomplete elaboration of complex ideas and he warned of its omissions. Similarly, even before publication in 1931 of *A Treatise on Money*, Keynes recognised this as a premature presentation, for which reason Hayek's trenchant criticisms of that book were greeted with a certain equanimity

Concluding that their respective theories occupied different terrains, Keynes admitted that Hayek was right in saying that he did not have a clear account of the factors determining the natural rate of interest and that he would endeavour to make good this deficiency (Hession, 1984, p. 261)

but Hayek had obtained an early perception of where Keynes's economics might lead and his opposition to Keynes, and to Keynesianism, was to be restated and refined over many years. In retrospect,

[t]he real issue was the validity of what we now call macro-analysis (Hayek, 1972, p. 100).

<sup>2</sup> This is not to infer that the former grew out of the latter. Hayek's philosophy, politics and economics are fully integrated, with 'the central problem of the nature of mental phenomenon' (Hayek 1952, vii) as the focal point.

There might have been few differences between the two men had Keynes's earlier work—*A Tract on Monetary Reform*<sup>3</sup> (1924) and his subsequent collaboration with Dennis Robertson—not have been largely repudiated. The *Treatise* was to be superseded by *The General Theory of Employment, Interest and Money*<sup>4</sup> (1936) where the attack upon 'orthodoxy' became focused, rather surprisingly, upon a concept—neutral money—which had long been regarded as one which begged too many important questions. Monetary theory had moved on. Indeed, Hayek's own publications had been concerned to explore the details of the intricate ramifications which arise from monetary forces and his work continued to show the relevance of these to the business cycle.

Keynes quite simply understood neither Hayek's economics<sup>5</sup> nor the foundations upon which it was based. Had this been otherwise, there would have been the possibility of a synthesis of inestimable worth, for a retrospective view of the philosophical leanings of the two men reveals a remarkable empathy. Hayek and Keynes were as close in their perceptions of human ignorance and frailty, and of their consequences, as they have been set apart by their respective approaches to economic policy.

### III

#### ACTION AND UNCERTAINTY

From a shared recognition that the effects of human actions cannot be determined in advance of those actions, Hayek and Keynes both rejected the principles of hedonistic utilitarian economics. Hayek placed a supreme value upon individual liberty, but saw in this no promise of enhanced material living standards, nor that an individual might identify his best course of action. The argument for liberty is not utilitarian since, in a dynamic context,

[p]rogress in the sense of the cumulative growth of knowledge and power over nature is a term that says little about whether the new state will give us more satisfaction than the old (Hayek, 1960, p. 41).

<sup>3</sup> Regarded by Milton Friedman as 'the most explicitly monetarist work amongst the writings of the Cambridge School' (see Presley, 1985, p. 2).

<sup>4</sup> It is interesting to note that, only as late as December 1933, was the title of *The General Theory* chosen, in preference to 'The Monetary Theory of Production'. (See Keynes, 1973a, p. xvi and Hession, 1984, p. 224.) One possible inference is a wish to avoid either confusion or comparison with Hayek's title of that same year.

<sup>5</sup> To be fair, there were few who did! Hayek is not the easiest to follow. *The Pure Theory of Capital* is especially neglected, which is a pity, for otherwise it might have prevented the long dispute between Marxist and neoclassical economists—the 'capital theory controversy'—which extended into the early 1970s. 'In order to arrive at an aggregate figure of the amount of waiting involved in each process we have to assign different weights to the different units of input, and these weights must necessarily be expressed in terms of value. But the relative values of the different kinds of input will inevitably depend on the rate of interest, so that such an aggregate cannot be regarded as something that is independent of, or as a datum determining the rate of interest' (Hayek, 1941 p. 143). These perceptive and original comments were unknown to, or ignored by, participants in the controversy.

The static utilitarian concentration upon the formation of preferences overlooks the important question of what kind of preferences are worth having; for preferences are conditioned by experience. Human progress is valued, not because it extends happiness, but because it extends human intelligence. Against the background of uncertain outcomes, it is possible to judge the action but not the result:

[w]hat matters is the successful striving for what at each moment seems attainable... Progress is movement for movement's sake, for it is in the process of learning, and in the effects of having learned something new, that man enjoys the gift of his intelligence (Hayek, 1960, p. 41).

Keynes reached a similar position in drawing from two sources. Edmund Burke provided Keynes with a framework for political thought, whereby the concern was not with objectives, but with the means to facilitate individuals in pursuit of personal goals. The fulfilment which can be achieved is constrained only by the principle of equity:

Keynes accepts equity not in the modern sense of realising certain end states, but in the Burkean (or Hayekian) sense of the absence in law or policy of 'artificial discrimination in regard to individuals and to classes' (Skidelsky, 1991, p. 113).

In this *political* context, Keynes acceded to Burke's utilitarian objective. Yet, politics offered no route to a framework for ethics. This was separately established by the doctrine of composite wholes, which Keynes drew (as his second source) from his Cambridge mentor G. E. Moore.

Keynes shared Moore's belief that intuition might grasp the ultimate ideals of duty and virtue, which utilitarianism had usurped. Yet, where Moore had advised adherence to conventions, believing that sheer complexity precluded any ethical justification for economic or political acts, Keynes saw a connection between ethics and action, between what is good and what ought to be done:

[t]he key aspect of Keynes's general hostility to Moore's view that certain rules should be universally followed is not an opposition to rules *per se*, but a belief in the right and wisdom or ability of individuals in most, if not all, contexts to judge the reasonableness of any course of action for themselves (Lawson, 1991, p. 207).

Uncertainty and the organic whole implied that utilitarian calculations conjured only a false rationality. Rather:

[w]e follow truth because it is truth, and not because we have notified our course by the calculus of probabilities (Keynes, cited from FitzGibbons, 1988, p. 61).

Whereas conventional structures give form to interdependent activity, the choice of the course of action is directed by the exercise of animal spirits, that is 'the spontaneous urge to action rather than inaction' (Keynes, 1973a, p. 161). Utilitarianism required that probabilities relating to future events were

quantifiable. For Moore, these probabilities were unknowable: for Keynes, they were unquantifiable but, given intuitive judgement, they were knowable in the limited sense that probabilities are comparable if they are similar in kind. In general, however, this is not the case and judgements are necessary in respect of possible outcomes which are so essentially different that

the magnitudes of probability relations must be measured in various units according to the particular case in question, these units being incommensurable among themselves (Keynes 1907, p. 67 cited from Carabelli, 1991, p. 12).

While it must follow that, upon such complex issues, motivations to act

are not 'rational' in the sense of being concerned with the evaluation of consequences, but are decided by habit, instinct, preference, desire, will, etc. (Keynes, 1979, p. 294),

there is no licence to indulge. From a shared belief in advancement for its own sake, Hayek and Keynes both emphasised the responsibilities, as against the rights, of an individual. From Hayek comes the view that

[l]earned moral rules, customs, progressively displaced innate responses, not because men recognised by reason that they were better but because they made possible the growth of an extended order exceeding anyone's vision (Hayek, 1988, p. 23),

while Keynes quotes his political hero Edmund Burke

out of the physical causes unknown to us, perhaps unknowable, arise moral duties, which, as we are perfectly able to comprehend, we are bound indispensably to perform (Keynes, cited from FitzGibbons, 1987, p. 57).

These reflect the concern of both men to attempt to focus upon those features which are essential, not to the satisfaction of local desires, but to the advance of civilisation. In this, both placed little value upon human reason as a guide to ensure the progress of mankind.

#### IV

##### ALTERNATIVES TO REASON

Hayek employed logic to refute the possibility of a rational evaluation of the outcome of human actions

if the desire to make reason as effective as possible is what is meant by rationalism, I am myself a rationalist. If, however, the term means that conscious reason ought to determine every particular action, I am not a rationalist, and such rationalism seems to me very unreasonable (Hayek, 1973, p. 29)

and to argue that judgement is utterly dependent upon that inarticulable and tacit knowledge, which is embodied in cultural habits and procedures. These lie 'between instinct and reason'<sup>6</sup>

Just as instinct is older than custom and tradition, so then are the latter older than reason—logically, psychologically, temporally. They are due neither to what is sometimes called the unconscious, nor to intuition, nor to rational understanding (Hayek, 1988, p. 23)

and carry the implication that we always know much more than we can express. Although culturally determined rules cannot be subjected to rational evaluation, they are the means to draw the distinction between approved and disreputable acts (between 'right and wrong').

Keynes, too, subverted reason. His thesis was that logical chains are ill-equipped to reveal the vitality of an organic system. Intuition was the basis for the 'rational degrees of belief' of the *Treatise on Probability*; and the 'schematism' of *The General Theory* was presented as a means to facilitate intuitive insights into complex events:

our practical intuition (which can take account of a more detailed complex of facts than can be treated on general principles) will be offered a less intractable material upon which to work (Keynes, 1973a, p. 249).

It is rational that individual decision-making should be based upon wise intuition; and (for Hayek) those decisions would be bounded by the precepts of custom and tradition. Though quantifiable only in terms of degrees of belief, the former (Keynes's intuition) implies a knowledge of circumstances which the latter (Hayek's tradition) does not.<sup>7</sup> Essentially, however, the two are mutually compatible. More controversial is the application of intuition to economic theory and to policy choice:

[t]hough endowed with supreme mental powers, his thinking was as much influenced by aesthetic and intuitive as by purely rational factors. ... the intuition which made him sure of the results before he had demonstrated them ... made him rather impatient of the slow, painstaking intellectual work by which knowledge is normally advanced (Hayek, 1978, p. 287).

Beyond this important difference, both Hayek and Keynes had due regard for the complexity in economics which defies mathematical modelling, a feature which was missed by those who were to create Keynesian macroeconomics. In dealing with net output or prices generally, theory is not quantifiable

Our precision will be a mock precision if we try to use such partly vague and

<sup>6</sup>This is the title of the opening chapter of Hayek (1988).

<sup>7</sup>Hayek deals with the semantics as follows: '... action which is guided by rules we are not aware of is described as "instinctive" or "intuitive". There is not much harm in these words except that both, specially "intuitive", usually refer to the perception of the particular properties of the action taken. As commonly used, the term "intuitive" suggests an attribute not possessed by abstract rules which we follow in our actions, and for this reason it had better be avoided.' (Hayek, 1973, p. 31).

non-quantitative concepts as the basis of a quantitative analysis (Keynes, 1973a, p. 40),

a view which was endorsed by Hayek's criticism of

the pseudo-scientific economics of averages (Hayek, 1972, p. 20).<sup>8</sup>

In the *Treatise on Probability*, Keynes had argued convincingly that the methodology of the natural sciences was inappropriate to economics. Yet, although essential points were to be reaffirmed

Economics deals with motives, expectations, psychological uncertainty. One has to be constantly on guard against treating the material as constant and homogeneous (Keynes, 1973b, p. 300)

his warnings against 'the attempt to erect a quantitative science of macro-economics' (Carabelli, 1991, p. 5 FN) were largely overlooked. Keynes's objection to pseudo-measurement, which is linked to the concept of the economy as an organic whole, were to have a close parallel in Hayek's work:

economic values or prices, cannot be interpreted by simple causal or 'nomothetic' theories, but require explanation in terms of the joint effects of a larger number of distinct elements than we can ever hope individually to observe or manipulate (Hayek, 1988, p. 148).

Yet, despite the closeness of these philosophical perceptions, the two men were to become rivals in the fullest sense.

## V

### CHRONIC UNEMPLOYMENT

One clear point of departure<sup>9</sup> lies in a detail of history for, unlike Keynes and certainly a majority among economists and politicians, Hayek was not to be distracted by the unusual circumstances of the 1930s and the problem of chronic high unemployment. However reasonable they might appear, short-lived panaceas for a pressing problem were of no interest and his focus remained fixed upon the complexities of an organic system.

So Hayek continued with his investigations of the linkages between the business cycle and efficient resource allocation within a market economy. These gave emphasis to the dynamic supply constraints which preclude any idea of

<sup>8</sup> Aggregates lie outside Hayek's theoretical schema. A valuation of capital, for example, is the outcome of entrepreneurial deliberations, not a datum upon which decisions can be formulated. Capital is described only in terms of 'alternative income streams' from which its existence enables us to choose (Hayek, 1941, p. 147).

<sup>9</sup> Another lies in Keynes's acceptance of the neo-classical paradigm, as used in *The General Theory* to define involuntary unemployment and to explain the route away from recession via diminishing returns to labour and a rise in the price of wage goods.

sustainable full employment. Although Hayek recognised that business fluctuations might be reduced if bank credit creation were closely controlled, the

stability of the economic system would be obtained at the price of curbing economic progress (Hayek, 1933a, p. 190).

His confidence of the development of theory to investigate more closely the non-neutrality of money

I am of the opinion that in the near future, monetary theory will not only reject the explanation in terms of a direct relation between money and the price level, but will even throw overboard the concept of a general price level and substitute for it investigations into the causes of the changes of relative prices and their effects on production (Hayek, 1935, p. 29)

was to be undermined by the influence of Keynes. The paradox is that, while Keynes's appreciation 'of the problems of a money economy' was compatible with the theory which Hayek was developing, Keynes's wish to achieve a 'quick fix' for high unemployment led to the creation of conceptual aggregations which obscured important questions. In particular, the focus upon investment as a category of expenditure, rather than as the provision of resources to support a multitude of different capitalistic production methods, diverted attention from the need for continuous and accurate adjustments in the face of varying expenditure patterns.

The idea, that public expenditure might sustain an economy in a state of high employment, ran counter to Hayek's perception of a vital economy, but his ideas came to full maturity too late to rebut the hostile reaction of an economics profession which had been captivated by Keynes (see, for example, Wilson, 1940 and Kaldor, 1942). Hayek's argument that recession was typically the outcome of *too much* investment<sup>10</sup> caused particular rage, for an over-investment theory of economic slump was menacing to Keynes's prescription of a state investment programme to ensure high aggregate demand. While there can be no doubt that Keynes (and Keynesians) won the battles which secured the high ground for many years, the reassessment of those conquests remains a contentious issue within the economics profession:

there was a time when the new theories of Hayek were the principal rivals of the new theories of Keynes. Which was right, Keynes or Hayek? (Hicks, 1967).

The choice to be made must surely rest, not upon the basis of econometric evidence of market efficiency or failure, or upon time-series estimates of relationships between statistical aggregates, but upon a judgment of the alternative precepts for a sound political economy.

<sup>10</sup> See Steele (1992) for a modern interpretation of Hayek's case, which refutes the charge (Kaldor, 1942) of theoretical inconsistency.



## VI

## THE ECONOMICS OF PRACTICAL WISDOM

Keynes derived his political precepts largely from Burke, who emphasised the value of ethical norms and social conventions, none of which was of any legitimate concern to government. According to Burke, the stability of Western society rested upon the absolute sanctity of the Church and of private property. While Keynes accepted that it was of crucial importance to define the proper domain and functions of the state, he denied that this might be based upon any notion of universal absolutes. Instead, expediency required that rights and responsibilities (morality) should be shaped by intuition according to circumstances. So Burke's opposition to state intervention in commerce and property was set aside as mere detail; and the crucial feature which Keynes drew from Burke's theory is that

the public wisdom must always be supreme over individual discretion (Fitzgibbons, 1988, p. 54).

Keynes's goal was to produce an 'economics of practical wisdom' (Fitzgibbons, 1988, p. 198) which recognises that, while decisions necessarily have a subjective element, they ought not to be arbitrary. Judgement would replace dogmatism.

Two other political maxims were drawn from Burke, namely that close attention should be paid to the prejudices of the people and that reform should never be violent. Hayek also recognised the dangers inherent in radical change, but Keynes's presumption that it might be possible to plot a rational course of development

A rapid transition will involve so much pure destruction of wealth that the new state of affairs will be, at first, far worse than the old, and the grand experiment will be discredited (Keynes, 1982, p. 245)

is less modest than the position taken by Hayek, for whom the purpose of supporting slow evolutionary change was to ensure that developments would enhance, rather than detract from, a just society. Hayek ruled out the 'grand experiment' for the reasons that any outcome could not be determined in advance and that small mistakes are more happily rectified than large ones. Moreover, human nature—the prejudices of the people—which Keynes felt ought to be managed by 'wise and prudent statesmanship' (Keynes, 1973a, p. 374) were, according to Hayek, harnessed only by the mechanisms of evolving custom and tradition.

## VII

## THE POWER OF THE STATE

For Aristotle and Plato (and Keynes) the important questions concerned the

kind of person who was fit to govern. Civil virtue is attained by actions towards a *common* good. According to Locke (and Hayek) the important questions concerned the limitations to be imposed upon the authority of government. Recognising both the potential for economic advance, which is created by a trustworthy money order, and that the state might coerce its citizens by corrupting that money order, John Locke had sought to establish principles to protect *individuals'* rights against arbitrary political encroachment.

Money and commerce had been regarded by the ancients as a potential political threat. Through their business contacts, traders and merchants were exposed to new customs, thoughts and values which might challenge the existing order. Keynes provided a modern rationale for these age-old fears and confirmed the hostility to industrial and commercial values which formed part of the British tradition of the leisured elite—his own class. His route to these conclusions took in a monetary theory of interest rate determination and an argument for state involvement to counter volatile expectations and entrepreneurial investment decisions founded upon business conventions, which

will be compatible with a considerable measure of continuity and stability in our affairs, *so long as we can rely on the maintenance of the convention* (Keynes, 1973a, p. 152).

Entrepreneurs could act rationally only by accepting that action is for action's sake; but the modern age had dispensed with that co-operation and altruism, whereby

the labouring classes accepted from ignorance or powerlessness, or were compelled, persuaded or cajoled by custom, convention, authority, and the well established order of society into accepting, a situation in which they could own very little of the cake... And on the other hand the capitalist classes were allowed to call the best part of the cake theirs and were theoretically free to consume it, on the tacit condition that they consumed very little of it in practice (Keynes, 1971, pp. 11–2).

Such conventions had shown themselves insufficiently robust to survive The Great War; and so there was no longer a substitute for judgement based upon ethics. Macroeconomic intervention by the government had become necessary when business began to follow profit. Economics and politics were now to be joined and to receive direction from a common set of social values. In close parallel with Plato's ideal, Keynes

implied that the political solution is a guardian class unswayed by venal passions of humanity (Fitzgibbons, 1988, p. 174),

and here, too, we find a similarity with Hayek's proposals (Hayek, 1978, pp. 152–62) for a legislature—representative of general opinion but immune from special interest pressure—composed of individuals who would take a long term view, unswayed by fashion or passion; and uninfluenced by any desire for re-election.

Although the proposals are superficially alike, Hayek's were made within the

context of an argument for the separation of the powers of government (with a responsibility to administer those limited resources placed at its disposal by the wishes of a majority and in accordance with just laws) from those of a legislature. The object was to protect the rule of law from encroachment by government. Keynes, in stark contrast, saw no conflict between liberty and a strong state. Keynes quotes Burke to support a pragmatic approach to resolve

one of the finest problems in legislation, namely, to determine what the state ought to take upon itself to direct by the public wisdom, and what it ought to leave, with as little interference as possible to individual exertion (Keynes, cited from Fitzgibbons, 1988, p. 54),

and although he cut loose from Burke in allowing government more discretionary power

to exercise a practical wisdom in its affairs, meaning a commitment to truth combined with familiarity with all the details of the data (FitzGibbons, 1988, pp. 163–4),

there is an unresolvable contradiction:

[n]o one was more critical of government error than Keynes; but the most disturbing feature of Keynes's attitude was his tendency to conclude such criticisms by proposing to increase the power and responsibilities of those criticised (Loasby, 1989, p. 188).

Having climbed down on one side of the fence, Keynes ignored the philosophical conundrum, which Hayek acknowledged having climbed down on the other; for although Hayek is represented as the apostle of *laissez-faire*, this is not

the ultimate and only conclusion (Hayek, 1933b, p. 134),

and

[p]robably nothing has done so much harm to the liberal cause as the wooden insistence of some liberals on certain rules of thumb, above all the principle of *laissez-faire* (Hayek, 1944, p. 13).

Undoubtedly, there is a presumption which favours competition, but for this to 'work beneficially, a carefully thought-out legal framework is required' (Hayek, 1944, p. 27). These requirements—which are necessary to harness sound information within a context of continuous change—are essential components of any theoretical structure for economic analysis, where the task is to understand the existing state of affairs in order to reach

a prognosis of what is likely to happen in the future (Hayek, 1941, p. 22).

Economic decisions are coherently based upon experience and the

various ways in which the knowledge on which people base their plans is communicated to them is the crucial problem for any theory explaining the economic process (Hayek, 1945 p. 78).

The guiding policy objective is to find the most effective way of utilising knowledge. This is the principle of effective planning. Is it to be achieved by centralised decision making or by allowing decisions to be dispersed across individuals by the processes of competition? Which information can be accessed only by individuals and which is more readily accessed by a body of experts? Although a presumption in favour of experts might be justified for scientific knowledge, there is a wider body of unorganised knowledge of rules governing particular circumstances and special processes. Here,

practically every individual has some advantage over all others because he possesses unique information of which beneficial use might be made (Hayek, 1945, p. 80).

Such information is no less vital than the scientific knowledge of technical experts but, because it is less readily identified and documented, it is grossly underrated.

The minutiae of interactive changes are beyond the compass of a single mind. Centralised planning, conducted upon the basis of statistical artifacts, can take no account of the special circumstances of time and place which are of critical importance to decisions taken at the local level. The authority and responsibility for economic decisions are for those with local knowledge, for the man on the spot, where the

continuous flow of goods and services is maintained by constant deliberate adjustments, by new dispositions made in the light of circumstances not known the day before (Hayek, 1945, p. 83).

Even so the application of the principle of *laissez-faire* leaves many important questions unanswered. Which constraints are to apply? What sets the boundaries to the areas where formal scientific knowledge is paramount? When is it legitimate for the state to coerce individual action? How is the law to evolve? These and many other related issues are central to Hayek's life's work which, like that of Keynes, goes far beyond the pristine boundaries of modern economics.

Although *The General Theory* emphasised the efficiency gains from 'the decentralisation of decisions and of individual responsibility' (Keynes, 1973a, p. 380), it warned against reliance upon market forces to sustain full employment. Although it recognised that authoritarian state systems could solve 'the problem of unemployment at the expense of efficiency and freedom' (Keynes, 1973a, p. 381), it called, nevertheless, for 'a somewhat comprehensive socialisation of investment' (Keynes, 1973a, p. 378). Furthermore, support for the latter was reaffirmed in a letter of 1944. On this occasion, Keynes took Hayek to task for 'the very doubtful assumption that planning is not more efficient' (Keynes, 1980, p. 386).

Keynes was commenting upon Hayek's *The Road to Serfdom*, which presents an uncompromising condemnation of socialism. Even though Keynes

was both

morally and philosophically ... in agreement with virtually the whole of it (Keynes, 1980, p. 385),

Hayek is held to have confused 'the moral and the material issues'. Clearly there is some difficulty in reaching a firm conclusion, but a fair summary of Keynes's position regarding centralised planning might be that it is regarded as efficient but potentially dangerous; that it is a 'safe' strategy providing it is undertaken by those who are 'rightly orientated in their own minds and hearts to the moral issue' (Keynes, 1980, p. 387).

## VIII

### CONUNDRUMS

By his emphasis upon the 'historical nature of society, the passionate nature of man, and the artificial nature of morality', Hayek is set firmly within the liberal tradition of David Hume, where justice and morality are valued as instruments of a civilised historical order. Yet, he also claimed an affinity with the philosophy of Immanuel Kant, where rules of justice are established upon rationally based universal applicability:

[o]ne of the most intriguing features of Hayek's political philosophy is its attempt to mark out a *tertium quid* between the view of justice of Hume and Kant (Gray, 1984, p. 8).

Where Hume had argued that it is impossible to defend reason with reason, Kant had upheld the autonomy of reason, which he employed to emphasise

man's autonomy, rationality, and his equal right to freedom (Kukathas, 1989, p. 17),

and so Hayek's attempt to provide a coherent defence of the liberal social order is

an attempt to marry a Kantian view of justice as an institution concerned with the distribution of *freedom*, with a Humean view of justice as an institution preserving *order* among men of limited benevolence, living in a world of scarcity (Kukathas 1989, p. 205).

Although close to Hume with the rejection of constructivist rationalism, with the notion of the spontaneous order and the nature of society and with the view of morality and justice as social institutions, Hayek rejected the conservatism which these might seem to imply. Hayek saw it as a task for economists, to probe the issues which determine the legitimate scope for state intervention. 'Private property' and 'freedom of contract' do not, *in themselves*, provide for solutions:

[o]ur main problems begin when we ask what ought to be the contents of

property rights, what contracts should be enforceable, and how contracts should be interpreted or, rather, what standard forms of contract should be read into the informal agreements of everyday transactions (Hayek, 1949, p. 113).

A first requirement is the separation of the powers of government from that of law-making, for 'government under the law' cannot survive omnipotent legislatures

to call 'law' everything that the elected representatives of the majority resolve ... is very bad joke. It is in truth lawless government (Hayek, 1978, p. 153).

So Hayek attempted to create a more extensive political economy, with an explicit consideration of the relationship between market processes and the free society, where moral and political issues are understood within a framework of evolving cultural practices. However, the unifying abstract feature of all just systems (which he drew from Kant)—that of an individual's equal right to *freedom*—is ultimately incompatible with his scepticism of the existence of absolute guide-lines. The creativity which derives from spontaneity demands freedom for the individual; but the universal tendency to err demands caution and respect for cultural taboos. As with Keynes, there is an unresolvable contradiction

Hayek has tried to cast himself in the image of the most improbable of creatures: the principled sceptic (Kukathas, 1989, p. 215)

and, like Keynes, he failed in the attempt to use ethical principles to forge a link between a dynamic economy and the ideal of a liberal and just civilisation. It was inevitable that Keynes's own political programme became elitist and anti-democratic, for his particular emphasis, that the human spirit might be liberated by the forces of art and culture, remains unproven

for all his insight and intuition, Keynes was, even by his own account, misled by a superficial and exaggerated notion of the power of ideas (FitzGibbons, 1988, p. 197)

while his vision of the world is incompatible with its evolutionary cultural development:

[t]he prospect for civilisation had receded over the horizon. The rest of Keynes's life was spent in trying to bring it back into sight (Skidelsky, 1983, p. 402).

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