

John Maynard Keynes, from *The End of Laissez-Faire*¹

*John Maynard Keynes (1883-1946) was a British economist. Keynes studied and taught at Cambridge University and advised the British government on economic matters. As an eyewitness to the Paris Peace Conference, Keynes lamented the punitive measures in the Treaty of Versailles, criticizing post-war leaders in *The Economic Consequences of the Peace* (1919). Keynes is significant for advocating government stimulation of the economy through deficit spending in order to protect individuals from capitalism's down cycles. His work *The End of Laissez-Faire* (1926) promoted this view, but the unemployment of the Great Depression led him to further develop these ideas in his magnum opus, *General Theory of Employment, Interest and Money* (1935-1936).*

The disposition towards public affairs, which we conveniently sum up as individualism and laissez-faire, drew its sustenance from many different rivulets of thought and springs of feeling. For more than a hundred years our philosophers ruled us because, by a miracle, they nearly all agreed or seem to agree on this one thing. We do not dance even yet to a new tune. But a change is in the air. We hear but indistinctly what were once the clearest and most distinguishable voices which have ever instructed political mankind. The orchestra of diverse instruments, the chorus of articulate sound, is receding at last into the distance.

At the end of the seventeenth century the divine right of monarchs gave place to natural liberty and to the compact, and the divine right of the church to the principle of toleration, and to the view that a church is 'a voluntary society of men', coming together, in a way which is 'absolutely free and spontaneous' (Locke, *A Letter Concerning Toleration*). Fifty years later the divine origin and absolute voice of duty gave place to the calculations of utility. In the hands of Locke and Hume these doctrines founded Individualism. The compact presumed rights in the individual; the new ethics, being no more than a scientific study of the consequences of rational self-love, placed the individual at the centre. 'The sole trouble Virtue demands,' said Hume, 'is that of just Calculation, and a steady preference of the greater Happiness.' (*An Enquiry Concerning the Principles of Morals*, section LX).

These ideas accorded with the practical notions of conservatives and of lawyers. They furnished a satisfactory intellectual foundation to the rights of property and to the liberty of the individual in possession to do what he liked with himself and with his own. This was one of the contributions of the eighteenth century to the air we still breathe.

The purpose of promoting the individual was to depose the monarch and the church; the effect - through the new ethical significance attributed to contract - was to buttress

¹ Source: John Maynard Keynes, *The End of Laissez-Faire* (London: Hogarth Press, 1926).

property and prescriptions. But it was not long before the claims of society raised themselves anew against the individual. Paley and Bentham accepted utilitarian hedonism from the hands of Hume and his predecessors, but enlarged it into social utility ('I omit' says Archdeacon Paley, 'much usual declamation upon the dignity and capacity of our nature, the superiority of the soul to the body, of the rational to the animal part of our constitution; upon the worthiness, refinement, and delicacy of some satisfactions, and the meanness, grossness, and sensuality of others: because I hold that pleasures differ in nothing but in continuance and intensity' - *Principles of Moral and Political Philosophy*, Book 1, chap. 6). Rousseau took the Social Contract from Locke and drew out of it the General Will. In each case the transition was made by virtue of the new emphasis laid on equality. 'Locke applies his Social Contract to modify the natural equality of mankind, so far as that phrase implies equality of property or even of privilege, in consideration of general security. In Rousseau's version equality is not only the starting-point but the goal.' (Leslie Stephen, *English Thought in the Eighteenth Century*, II, 192).

Paley and Bentham reached the same destination, but by different routes. Paley avoided an egoistic conclusion to his hedonism by a God from the machine. 'Virtue,' he says, 'is the doing good to mankind, in obedience to the will of God, and for the sake of everlasting happiness' - in this way bringing I and the others to a parity. Bentham reached the same result by pure reason. There is no rational ground, he argued, for preferring the happiness of one individual, even oneself, to that of any other. Hence the greatest happiness of the greatest number is the sole rational object of conduct - taking utility from Hume, but forgetting that sage man's corollary: 'Tis not contrary to reason to prefer the destruction of the whole world to the scratching of my finger.' 'Tis not contrary to reason for me to choose my total ruin to prevent the least uneasiness of an Indian, or person totally unknown to me. Reason is and ought only to be the slave of the passions, and can never pretend to any other office than to serve and obey them.'

Rousseau derived equality from the state of nature, Paley from the will of God, Bentham from a mathematical law of indifference. Equality and altruism had thus entered political philosophy, and from Rousseau and Bentham sprang both democracy and utilitarian socialism.

This is the second current - sprang from long-dead controversies, and carried on its way by long-exploded sophistries - which still permeates our atmosphere of thought but it did not drive out the former current. It mixed with it. The early nineteenth century performed the miraculous union. It harmonised the conservative individualism of Locke, Hume, Johnson, and Burke with the socialism and democratic egalitarianism of Rousseau, Paley, Bentham, and Godwin. (Godwin carried *laissez-faire* so far that he thought all government an evil, in which Bentham almost agreed with him. The doctrine of equality becomes with him one of extreme individualism, verging on anarchy. 'The universal exercise of private judgement,' he says, 'is a doctrine so unspeakably beautiful that the true politician will certainly feel infinite reluctance in admitting the idea of interfering with it' - see Leslie Stephen, *op. cit.* II, 277).

Nevertheless, that age would have been hard put to it to achieve this harmony of opposites if it had not been for the economists, who sprang into prominence just at the right moment. The idea of a divine harmony between private advantage and the public good is already apparent in Paley. But it was the economists who gave the notion a good scientific basis. Suppose that by the working of natural laws individuals pursuing their own interests with enlightenment in condition of freedom always tend to promote the general interest at the same time! Our philosophical difficulties are resolved - at least for the practical man, who can then concentrate his efforts on securing the necessary conditions of freedom. To the philosophical doctrine that the government has no right to interfere, and the divine that it has no need to interfere, there is added a scientific proof that its interference is inexpedient. This is the third current of thought, just discoverable in Adam Smith, who was ready in the main to allow the public good to rest on 'the natural effort of every individual to better his own condition,' but not fully and self-consciously developed until the nineteenth century begins. The principle of laissez-faire had arrived to harmonise individualism and socialism, and to make at one Hume's egoism with the greatest good of the greatest number. The political philosopher could retire in favour of the business man - for the latter could attain the philosopher's summum bonum by just pursuing his own private profit.

Yet some other ingredients were needed to complete the pudding. First the corruption and incompetence of eighteenth-century government, many legacies of which survived into the nineteenth. The individualism of the political philosophers pointed to laissez-faire. The divine or scientific harmony (as the case might be) between private interest and public advantage pointed to laissez-faire. But above all, the ineptitude of public administrators strongly prejudiced the practical man in favour of laissez-faire - a sentiment which has by no means disappeared. Almost everything which the State did in the eighteenth century in excess of its minimum functions was, or seemed, injurious or unsuccessful.

On the other hand, material progress between 1750 and 1850 came from individual initiative, and owed almost nothing to the directive influence of organised society as a whole. Thus practical experience reinforced a priori reasonings. The philosophers and the economists told us that for sundry deep reasons unfettered private enterprise would promote the greatest good of the whole. What could suit the business man better? And could a practical observer, looking about him, deny that the blessings of improvement which distinguished the age he lived in were traceable to the activities of individuals 'on the make'?

Thus the ground was fertile for a doctrine that, whether on divine, natural, or scientific grounds, state action should be narrowly confined and economic life left, unregulated so far as may be, to the skill and good sense of individual citizens actuated by the admirable motive of trying to get on in the world.

By the time that the influence of Paley and his like was waning, the innovations of Darwin were shaking the foundations of belief. Nothing could seem more oppose than the old doctrine and the new - the doctrine which looked on the world as the work of the divine watchmaker and the doctrine which seemed to draw all things out of Chance, Chaos, and Old Time. But at this one point the new ideas bolstered up the old. The economists were teaching that wealth, commerce, and machinery were the children of free competition - that free competition built London. But the Darwinians could go one better than that - free competition had built man. The human eye was no longer the demonstration of design, miraculously contriving all things for the best; it was the supreme achievement of chance, operating under conditions of free competition and laissez-faire. The principle of the survival of the fittest could be regarded as a vast generalisation of the Ricardian economics. Socialist interferences became, in the light of this grander synthesis, not merely inexpedient, but impious, as calculated to retard the onward movement of the mighty process by which we ourselves had risen like Aphrodite out of the primeval slime of ocean.

Therefore I trace the peculiar unity of the everyday political philosophy of the nineteenth century to the success with which it harmonised diversified and warring schools and united all good things to a single end. Hume and Paley, Burke and Rousseau, Godwin and Malthus, Cobbett and Huskisson, Bentham and Coleridge, Darwin and the Bishop of Oxford, were all, it was discovered, preaching practically the same thing - individualism and laissez-faire. This was the Church of England and those her apostles, whilst the company of the economists were there to prove that the least deviation into impiety involved financial ruin.

These reasons and this atmosphere are the explanations, we know it or not - and most of us in these degenerate days are largely ignorant in the matter - why we feel such a strong bias in favour of laissez-faire, and why state action to regulate the value of money, or the course of investment, or the population, provokes such passionate suspicions in many upright breasts. We have not read these authors; we should consider their arguments preposterous if they were to fall into our hands. Nevertheless we should not, I fancy, think as we do, if Hobbes, Locke, Hume, Rousseau, Paley, Adam Smith, Bentham, and Miss Martineau had not thought and written as they did. A study of the history of opinion is a necessary preliminary to the emancipation of the mind. I do not know which makes a man more conservative - to know nothing but the present, or nothing but the past.

I have said that it was the economists who furnished the scientific by which the practical man could solve the contradiction between egoism and socialism which emerged out of the philosophising of the eighteenth century and the decay of revealed religion. But having said this for shortness' sake, I hasten to qualify it. This is what the economists are supposed to have said. No such doctrine is really to be found in the writings of the greatest authorities. It is what the popularisers and the vulgarisers said. It is what the Utilitarians, who admitted Hume's egoism and Bentham's egalitarianism at the same

time, were driven to believe in, if they were to effect a synthesis. (One can sympathise with the view of Coleridge, as summarised by Leslie Stephen, that 'the Utilitarians destroyed every element of cohesion, made Society a struggle of selfish interests, and struck at the very roots of all order, patriotism, poetry, and religion').

The language of the economists lent itself to the laissez-faire interpretation. But the popularity of the doctrine must be laid at the door of the political philosophers of the day, whom it happened to suit, rather than of the political economists.

The maxim laissez-nous faire is traditionally attributed to the merchant Legendre addressing Colbert some time towards the end of the seventeenth century. ('Que faut-il faire pour vous aider?' asked Colbert. 'Nous laisser faire' answered Legendre). But there is no doubt the first writer to use the phrase, and to use it in clear association with the doctrine, is the Marquis d'Argenson about 1751. (For the history of the phrase, see Oncken, 'Die Maxime Laissez faire et laissez-passer' from whom most of the following quotations are taken. The claims of the Marquis d'Argenson were overlooked until Oncken put them forward, partly because the relevant passages published during his lifetime were anonymous - Journal Oeconomique, 1751 - and partly because his works were not published in full - though probably passed privately from hand to hand during his lifetime - until 1858 - Mémoires et Journal inédit du Marquis d'Argenson.)

The Marquis was the first man to wax passionate on the economic advantages of governments leaving trade alone. To govern better, he said, one must govern less. ('Pour gouverner mieux, il faudrait gouverner moins.') The true cause of the decline of our manufactures, he declared, is the protection we have given to them. ('On ne peut dire autant de nos fabriques: la vraie cause de leur déclin, c'est la protection outréee qu'on leur accorde.') 'Laissez faire, telle devrait être la devise de toute puissance publique, depuis que le monde est civilisé.' 'Détestable principe que celui de ne vouloir grandeur que par l'abaissement de nos voisins! Il n'y a que la méchanceté et la malignité du coeur de satisfaites dans ce principe, et l'intérêt y est opposé. Laissez faire, morbleu! Laissez faire!!'

Here we have the economic doctrine of laissez-faire, with its most fervent expression in free trade, fully clothed. The phrases and the idea must have passed current in Paris from that time on. But they were slow to establish themselves in literature; and the tradition associating with them the physiocrats, and particularly de Gournay and Quesnay, finds little support in the writings of this school, though they were, of course, proponents of the essential harmony of social and individual interests. The phrase laissez-faire is not to be found in the works of Adam Smith, of Ricardo, or of Malthus. Even the idea is not present in a dogmatic form in any of these authors. Adam Smith, of course, was a Free Trader and an opponent of many eighteenth-century restrictions on trade. But his attitude towards the Navigation Acts and the usury laws shows that he was not dogmatic. Even his famous passage about 'the invisible hand' reflects the philosophy which we associate with Paley rather than the economic dogma of laissez-faire. As Sidgwick and Cliff Leslie have pointed out, Adam Smith's advocacy of the

'obvious and simple system of natural liberty' is derived from his theistic and optimistic view of the order of the world as set forth in his Theory of Moral Sentiments, rather than any proposition of political economy proper. (Sidgwick, Principles of Political Economy, p. 20).

The phrase laissez-faire was, I think, first brought into popular usage in England by a well-known passage of Dr Franklin's. (Bentham uses the expression 'laissez-nous faire' - Works, p. 440). It is not, until we come to the later works of Bentham - who was not an economist at all - that we discover the rule of laissez-faire, in the shape in which our grandfathers knew it, adapted into the service of the Utilitarian philosophy. For example in A Manual of Political Economy, (Written in 1793, a chapter published in the Biblioth que Britannique in 1798, and the whole first printed in Bowring's edition of this Works, 1843) he writes: 'The general rule is that nothing ought to be done or attempted by government; the motto or watchword of government, on these occasions, ought to be - Be quiet   The request which agriculture, manufacturers, and commerce present to governments is as modest and reasonable as that which Diogenes made to: Stand out of my sunshine.'

From this time on it was the political campaign for free trade, the influence of the so-called Manchester School and of the Benthamite Utilitarians, the utterances of secondary economic authorities and the education stories of Miss Martineau and Mrs Marcet, that fixed laissez-faire in the popular mind as the practical conclusion of orthodox political economy with this great difference, that the Malthusian view of population having been accepted in the meantime by this same school of thought, the optimistic laissez-faire of the last half of the eighteenth century gives place to the pessimistic laissez-faire of the last half of the nineteenth century.

Questions

According to Keynes, what is the "ideal size for the unit of control and organization" of commercial life?

What does Keynes mean when he advocates "collective action" to improve the "technique of modern capitalism"?