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ESSAYS
IN
PERSUASION

2. THE END OF LAISSEZ-FAIRE (1926)

Let us clear from the ground the metaphysical or general principles upon which, from time to time, *laissez-faire* has been founded. It is *not* true that individuals possess a prescriptive "natural liberty" in their economic activities. There is *no* "compact" conferring perpetual rights on those who Have or on those who Acquire. The world is *not* so governed from above that private and social interest always coincide. It is *not* so managed here below that in practice they coincide. It is *not* a correct deduction from the Principles of Economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally *is* enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these. Experience does *not* show that individuals, when they make up a social unit, are always less clear-sighted than when they act separately.

We cannot, therefore, settle on abstract grounds, but must handle on its merits in detail, what Burke termed "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." We have to discriminate between what Bentham, in his forgotten but useful nomenclature, used to term *Agenda* and *Non-Agenda*, and to do this without Bentham's prior presumption that interference is, at the same time, "generally needless" and "generally pernicious."¹ Perhaps the chief task of Economists at this hour is to distinguish afresh the *Agenda* of Government from the *Non-Agenda*; and the companion task of Politics is to devise forms of Government within a Democracy which shall be capable of accomplishing the *Agenda*. I will illustrate what I have in mind by two examples.

(1) I believe that in many cases the ideal size for the unit of control and organisation lies somewhere between the individual and the modern State. I suggest, therefore, that progress lies in the growth and the recognition of semi-autonomous bodies within the State—bodies whose criterion of action within their own field is solely the public good as they understand it, and from whose deliberations motives of private advantage are excluded, though some place it may still be necessary to leave, until the ambit of men's altruism grows wider, to the separate advantage of particular groups, classes, or faculties—bodies which in

¹ Bentham's *Manual of Political Economy*, published posthumously, in Bowring's edition (1843).

the ordinary course of affairs are mainly autonomous within their prescribed limitations, but are subject in the last resort to the sovereignty of the democracy expressed through Parliament.

I propose a return, it may be said, towards mediaeval conceptions of separate autonomies. But, in England at any rate, corporations are a mode of government which has never ceased to be important and is sympathetic to our institutions. It is easy to give examples, from what already exists, of separate autonomies which have attained or are approaching the mode I designate—the Universities, the Bank of England, the Port of London Authority, even perhaps the Railway Companies.

But more interesting than these is the trend of Joint Stock Institutions, when they have reached a certain age and size, to approximate to the status of public corporations rather than that of individualistic private enterprise. One of the most interesting and unnoticed developments of recent decades has been the tendency of big enterprise to socialise itself. A point arrives in the growth of a big institution—particularly a big railway or big public utility enterprise, but also a big bank or a big insurance company—at which the owners of the capital, *i.e.* the shareholders, are almost entirely dissociated from the management, with the result that the direct personal interest of the latter in the making of great profit becomes quite secondary. When this stage is reached, the general stability and reputation of the institution are

more considered by the management than the maximum of profit for the shareholders. The shareholders must be satisfied by conventionally adequate dividends; but once this is secured, the direct interest of the management often consists in avoiding criticism from the public and from the customers of the concern. This is particularly the case if their great size or semi-monopolistic position renders them conspicuous in the public eye and vulnerable to public attack. The extreme instance, perhaps, of this tendency in the case of an institution, theoretically the unrestricted property of private persons, is the Bank of England. It is almost true to say that there is no class of persons in the Kingdom of whom the Governor of the Bank of England thinks less when he decides on his policy than of his shareholders. Their rights, in excess of their conventional dividend, have already sunk to the neighbourhood of zero. But the same thing is partly true of many other big institutions. They are, as time goes on, socialising themselves.

Not that this is unmixed gain. The same causes promote conservatism and a waning of enterprise. In fact, we already have in these cases many of the faults as well as the advantages of State Socialism. Nevertheless we see here, I think, a natural line of evolution. The battle of Socialism against unlimited private profit is being won in detail hour by hour. In these particular fields—it remains acute elsewhere—this is no longer the pressing problem.

There is, for instance, no so-called important political question so really unimportant, so irrelevant to the reorganisation of the economic life of Great Britain, as the Nationalisation of the Railways.

It is true that many big undertakings, particularly Public Utility enterprises and other business requiring a large fixed capital, still need to be semi-socialised. But we must keep our minds flexible regarding the forms of this semi-socialism. We must take full advantage of the natural tendencies of the day, and we must probably prefer semi-autonomous corporations to organs of the Central Government for which Ministers of State are directly responsible.

I criticise doctrinaire State Socialism, not because it seeks to engage men's altruistic impulses in the service of Society, or because it departs from *laissez-faire*, or because it takes away from man's natural liberty to make a million, or because it has courage for bold experiments. All these things I applaud. I criticise it because it misses the significance of what is actually happening; because it is, in fact, little better than a dusty survival of a plan to meet the problems of fifty years ago, based on a misunderstanding of what some one said a hundred years ago. Nineteenth-century State Socialism sprang from Bentham, free competition, etc., and is in some respects a clearer, in some respects a more muddled, version of just the same philosophy as underlies nineteenth-century individualism. Both equally laid all

their stress on freedom, the one negatively to avoid limitations on existing freedom, the other positively to destroy natural or acquired monopolies. They are different reactions to the same intellectual atmosphere.

(2) I come next to a criterion of *Agenda* which is particularly relevant to what it is urgent and desirable to do in the near future. We must aim at separating those services which are *technically social* from those which are *technically individual*. The most important *Agenda* of the State relate not to those activities which private individuals are already fulfilling, but to those functions which fall outside the sphere of the individual, to those decisions which are made by *no one* if the State does not make them. The important thing for Government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at present are not done at all.

It is not within the scope of my purpose on this occasion to develop practical policies. I limit myself, therefore, to naming some instances of what I mean from amongst those problems about which I happen to have thought most.

Many of the greatest economic evils of our time are the fruits of risk, uncertainty, and ignorance. It is because particular individuals, fortunate in situation or in abilities, are able to take advantage of uncertainty and ignorance, and also because for the same reason big busi-

ness is often a lottery, that great inequalities of wealth come about; and these same factors are also the cause of the Unemployment of Labour, or the disappointment of reasonable business expectations, and of the impairment of efficiency and production. Yet the cure lies outside the operations of individuals; it may even be to the interest of individuals to aggravate the disease. I believe that the cure for these things is partly to be sought in the deliberate control of the currency and of credit by a central institution, and partly in the collection and dissemination on a great scale of data relating to the business situation, including the full publicity, by law if necessary, of all business facts which it is useful to know. These measures would involve Society in exercising directive intelligence through some appropriate organ of action over many of the inner intricacies of private business, yet it would leave private initiative and enterprise unhindered. Even if these measures prove insufficient, nevertheless they will furnish us with better knowledge than we have now for taking the next step.

My second example relates to Savings and Investment. I believe that some co-ordinated act of intelligent judgement is required as to the scale on which it is desirable that the community as a whole should save, the scale on which these savings should go abroad in the form of foreign investments, and whether the present organisation of the investment market distributes savings along the most nationally productive channels.

I do not think that these matters should be left entirely to the chances of private judgement and private profits, as they are at present.

My third example concerns Population. The time has already come when each country needs a considered national policy about what size of Population, whether larger or smaller than at present or the same, is most expedient. And having settled this policy, we must take steps to carry it into operation. The time may arrive a little later when the community as a whole must pay attention to the innate quality as well as to the mere numbers of its future members.

These reflections have been directed towards possible improvements in the technique of modern Capitalism by the agency of collective action. There is nothing in them which is seriously incompatible with what seems to me to be the essential characteristic of Capitalism, namely the dependence upon an intense appeal to the money-making and money-loving instincts of individuals as the main motive force of the economic machine. Nor must I, so near to my end, stray towards other fields. Nevertheless, I may do well to remind you, in conclusion, that the fiercest contests and the most deeply felt divisions of opinion are likely to be waged in the coming years not round technical questions, where the arguments on either side are mainly economic, but round those which, for want of better words, may be called psychological or, perhaps, moral.

In Europe, or at least in some parts of Europe—but not, I think, in the United States of America—there is a latent reaction, somewhat widespread, against basing Society to the extent that we do upon fostering, encouraging, and protecting the money-motives of individuals. A preference for arranging our affairs in such a way as to appeal to the money-motive as little as possible, rather than as much as possible, need not be entirely *a priori*, but may be based on the comparison of experiences. Different persons, according to their choice of profession, find the money-motive playing a large or a small part in their daily lives, and historians can tell us about other phases of social organisation in which this motive has played a much smaller part than it does now. Most religions and most philosophies deprecate, to say the least of it, a way of life mainly influenced by considerations of personal money profit. On the other hand, most men to-day reject ascetic notions and do not doubt the real advantages of wealth. Moreover it seems obvious to them that one cannot do without the money-motive, and that, apart from certain admitted abuses, it does its job well. In the result the average man averts his attention from the problem, and has no clear idea what he really thinks and feels about the whole confounded matter.

Confusion of thought and feeling leads to confusion of speech. Many people, who are really objecting to Capitalism as a way of life, argue as though they were objecting to it on the

ground of its inefficiency in attaining its own objects. Contrariwise, devotees of Capitalism are often unduly conservative, and reject reforms in its technique, which might really strengthen and preserve it, for fear that they may prove to be first steps away from Capitalism itself. Nevertheless a time may be coming when we shall get clearer than at present as to when we are talking about Capitalism as an efficient or inefficient technique, and when we are talking about it as desirable or objectionable in itself. For my part, I think that Capitalism, wisely managed, can probably be made more efficient for attaining economic ends than any alternative system yet in sight, but that in itself it is in many ways extremely objectionable. Our problem is to work out a social organisation which shall be as efficient as possible without offending our notions of a satisfactory way of life.

The next step forward must come, not from political agitation or premature experiments, but from thought. We need by an effort of the mind to elucidate our own feelings. At present our sympathy and our judgement are liable to be on different sides, which is a painful and paralysing state of mind. In the field of action reformers will not be successful until they can steadily pursue a clear and definite object with their intellects and their feelings in tune. There is no party in the world at present which appears to me to be pursuing right aims by right methods. Material Poverty provides the incentive to change precisely in situations where

there is very little margin for experiments. Material Prosperity removes the incentive just when it might be safe to take a chance. Europe lacks the means, America the will, to make a move. We need a new set of convictions which spring naturally from a candid examination of our own inner feelings in relation to the outside facts.