The End of Laissez-Faire A 90th Anniversary Commentary

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Presentation at Conference on The Relevance of Keynes to the Contemporary World

Fondazione Luigi Einaudi, Turin, 13-15 October 2016

Outline

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Introduction

- I have two objectives in this talk.
- First, to present a close reading of what I consider to be an underappreciated masterpiece among Keynes's writings, *The End of Laissez-Faire*.
- 2016 marks the 90th anniversary of the publication of this essay.
- Apart from its sharp, witty, and in places beautiful prose, I want to highlight: (i) Keynes's magisterial account, albeit in a thumbnail sketch, of the evolution of thought up to the dominance of the laissez-faire doctrine; (ii) an early statement, and then critique, of what we would now recognize as the fundamental theorems of welfare economics; and (iii) an account of the tensions in policy making as a result of the conflicting forces and arguments around laissez-faire.

Introduction

- My second objective is to consider the phenomenon of the ascendancy of the doctrine of laissez-faire in the mid-19th century, Keynes's declaration of the end of laissez-faire in 1926 some decades after its rise, Fukuyama's declaration of "the end of the end of laissez-faire" some decades after that, and then the realization some decades further on up to the current time, that declaring the end of the end of laissez faire was a little too hasty ("The end of history lasted for such a short time"-Kanbur, 2001).
- What's going on? The explanation of these cycles lies, I believe, in the essay The End of Laissez-Faire itself, and the tensions which Keynes identifies as facing policy makers.

Introduction

- The presentation draws on my paper:
- Ravi Kanbur, "The End of Laissez Faire, The End of History and The Structure of Scientific Revolutions", <u>Challenge</u>, Vol. 59, No. 1, pp. 35-46, 2016.

- The End of Laissez-Faire (reprinted in Collected Works, Volume 9, 1972) was first published as a pamphlet in July 1926. It drew on the Sidney Ball Lecture at Oxford in 1924 and on a lecture at the University of Berlin in June 1926.
- It is short, a little over 8,000 words, divided into five parts. The parts are not titled, but the logic and drive of Keynes's argument is very clear.
- Part I is the thumbnail sketch, but nevertheless a masterly tour de force, of the history of thought on laissez-faire. As Keynes concludes:
 - "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."

- Part II continues with the evolution of the doctrine and exculpates economists (a little) from its particular form:
 - "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."

- Part III is a statement, albeit of its time, of the fundamental theorems of welfare economics, embellished by a Darwinian perspective on competition that one does not see in modern statements of these theorems. Further, Keynes argues that the self-evident flaws in the argument (developed more fully in the next part) have been obscured by the flaws of the main counterarguments of the times:
 - "But the principles of *laissez-faire* have had other allies besides economic textbooks. It must be admitted that they have been confirmed in the minds of sound thinkers and the reasonable public by the poor quality of the opponent proposals protectionism on one hand, and Marxian socialism on the other...The arguments against them, though reinforced by the principle of *laissez-faire*, do not strictly require it."

- Part IV continues the critique of laissez-faire, but in an interesting and development, addresses policy tensions anticipated in the previous part and takes quite a Burkean turn:
 - "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."

- Part V concludes with familiar Keynesian clarion calls, but is a clear statement that what Keynes wants to do is to save capitalism from itself:
 - "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."

- Keynes's essay is a beautifully written account of the "many different rivulets of thought and springs of feeling" which fed into the development of the laissez-faire doctrine.
- The end of the story is the dominance of this doctrine in the mid-19th century, and is highlighted by Keynes with the example of an extract from an 1850 pamphlet *Easy Lessons for the Use of Young People*, by Archbishop Whately, distributed by the Society for Promoting Christian Knowledge:
 - "More harm than good is likely to be done by almost any interference of Government with men's money transactions, whether letting and leasing, or buying and selling of any kind.' *True* liberty is 'that every man should be left free to dispose of his own property, his own time, and strength, and skill, in whatever way he himself may think fit, provided he does no wrong to his neighbours".

- This is of course a very English version of the famous late 17th century exchange between Colbert and the merchant Legendre: "Que faut-il faire pour vous aider?---Nous laisser faire."
- (Keynes has an interesting detour examining the origins of the imperative phrase "laissez faire", claiming it goes back at least as far as the Marquis d'Argenson in 1751: "Laissez faire, morbleu! Laissez faire!!")
- But in England by the mid 19th century, according to Keynes's acerbic commentary, "the dogma had got hold of the educational machine; it had become a copybook maxim. The political philosophy, which the seventeenth and eighteenth centuries had forged in order to throw down kings and prelates, had been made milk for babes, and had literally entered the nursery."

- How this happened, indeed how laissez-faire was "forged in order to throw down kings and prelates," and the role economists played in this evolution, constitutes the fascinating first part of Keynes's essay. The route to challenging kings and prelates was through the individualism of Locke and Hume:
- "At the end of the seventeenth century the divine right of monarchs gave place to natural liberty....and the divine right of the church to... the view that a church is 'a voluntary society of men'...In the hands of Locke and Hume these doctrines founded Individualism.... 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. 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 property and prescriptions."

- However, the back and forth between the individual and social played out as always:
- "But it was not long before the claims of society raised themselves anew against the individual..... 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." Keynes (1926, p. 273)
- These conflicting tendencies, individual and society, were brought together in the 19th century: "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."

- But economists were needed for this miracle:
- "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....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!.....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."

- The Darwinian revolution added a further twist:
- "The economists were teaching 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."

• "These reasons and this atmosphere are the explanations....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."

- Part III of *The End of Laissez-Faire* contains a very clear statement, albeit peppered with Keynes's particular tongue in cheek style, of the basic tenets of the link between competition and the general welfare:
- "Thus, if only we leave the giraffes to themselves, (1) the maximum quantity of leaves will be cropped because the giraffes with the longest necks will, by dint of starving out the others, get nearest to the trees; (2) each giraffe will make for the leaves which he finds most succulent amongst those in reach; and (3) the giraffes whose relish for a given leaf is greatest will crane most to reach it. In this way more and juicier leaves will be swallowed, and each individual leaf will reach the throat which thinks it deserves most effort."

• "This assumption, however, of conditions where unhindered natural selection leads to progress, is only one of the two provisional assumptions which, taken as literal truth, have become the twin buttresses of *laissez-faire*. The other one is the efficacy, and indeed the necessity, of the opportunity for unlimited private money-making as an *incentive* to maximum effort.... The parallelism between economic *laissez-faire* and Darwinianism, already briefly noted, is now seen, as Herbert Spencer was foremost to recognise, to be very close indeed."

- Keynes is actually quite kind to economists on the whole, before launching into his critique.
- "Economists, like other scientists, have chosen the hypothesis from which they set out, and which they offer to beginners because it is the simplest, and not because it is the nearest to the facts."
- "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."

- And now comes the critique, quite devastating:
- "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."

- So we have a dilemma, don't we?
- On the one hand we have a doctrine underpinned by a set of assumptions which leads to very clear policy prescription: "Laissez faire morbleu! Laissez faire!!"
- On the other hand, we know that these assumptions are not met in practice.
- What to do? Keynes's answer is Burkean pragmatism:

- "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."
- [As is now clear, Burke was a great influence on Keynes, dating at least from his 1904 undergraduate essay "The Political Doctrines of Edmund Burke". The Keynes archives have his copius handwritten notes from reading the collected works of Burke. The quote from Burke above is from Burke's 1795 memorandum to the Prime Minister, Pitt the Younger, entitled "Thoughts and Details on Scarcity."]

- Keynes went on:
- "We have to discriminate between what Bentham, in his forgotten but useful nomenclature, used to term Agenda and NonAgenda.."
- "Perhaps the chief task of economists at this hour is to distinguish afresh the Agenda of government from the NonAgenda;"

- So what should be on the Agenda? The answer depends on the times and has to be provided "afresh". For Keynes, his times and his thinking at the time indicated an important set of Agenda items, including:
- "I believe that some coordinated 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."

- But the message I want to draw from all this is Keynes's Burkean pragmatism:
- "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."
- "These reflections have been directed towards possible improvements in the technique of modern capitalism by the agency of collective action."
- And that the Agenda has to be rethought for the times at hand.

- My reading of The End of Laissez-Faire and the evolution of political economy thinking it portrays has intersected with two other readings.
- The first is of course Fukuyama's declaration, and then subsequent rethinking (perhaps recanting), of *The End of History*, which might be relabeled *The End of The End of Laissez-Faire*.
- The second is an earlier literature on whether economics has had revolutions in the sense of Kuhn. Or rather, why economics has not had revolutions to compare with the great tectonic shifts in the natural sciences.

- In my reading, Bronfenbrenner (1971) has provided the best assessment of these questions, starting with the candidate revolutions:
- "The first is a laissez-faire revolution..... A conventional date is 1776, when Adam Smith's Wealth of Nations was published.....The second possible revolution is the breakup of the classical school which followed Smith, and which was led in turn by David Ricardo and John Stuart Mill. A conventional date for this second, or "utility", revolution is 1870. The third possible revolution is the breakup of the neoclassical Cambridge School which arose from the utility revolution under the aegis of Alfred Marshall and his successor A. C. Pigou. This revolution occurred during the Great Depression. A conventional date is 1936, the appearance of J. M. Keynes's General Theory....."
- "None of these three revolutions would rank—for a noneconomist, at least—with the Copernican, Newtonian, and Darwinian revolutions in astronomy, physics, and biology, but they are the best economics has to offer." Bronfenbrenner (1971, p.3)

- There is of course a big literature on explaining this state of affairs, including Bronfenbrenner's own thesis that a dialectical perspective is more appropriate for viewing the evolution of the history of economic thought, than the Kuhnian one of revolutionary paradigm shifts.
- My own perspective, stemming from the cycles and pendulum swings on laissez-faire, is to see the fundamental question of political economy in Keynesian-Burkean terms:
- "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."

- There are two aspects to this choice between *Agenda* and *NonAgenda*.
- One is technical, depending on which of the assumptions underpinning laissez-faire are violated and in exactly what way.
- The second is philosophical and ideological, the eternal tension between the individual and the social—a doctrine to "thrown down kings and prelates", transformed into individualism, and then facing the demands of the social yet again.
- These two aspects will appear afresh in every generation, and the needle will move this way and that depending on the times.

 But the question as posed by Burke through Keynes is an eternal one for political economy, so the evolution of political economy thinking will be characterized not by "Revolutions" but by "revolutions".

Conclusion

- I believe that *The End of Laissez-Faire* is an underappreciated masterpiece.
- It is an effective and beautifully written thumbnail sketch of the history of economic, social, political and philosophical thought leading up to the dominance of the doctrine in the 19th century.
- For Keynes scholars, it presents Keynes the microeconomist, rather than Keynes the macroeconomist or monetary economist, working through issues of market failure in a quite modern idiom.

Conclusion

- The cycles of thought he presents, together with the fundamentals of individualism versus social, and the choice between Agenda and NonAgenda—all of these tell us that laissez-faire and its end will always be part of the political economy discourse.
- For all of these reasons, I believe that *The End of Laissez-Faire* is indeed a masterpiece and part of the essential Keynes.

Thank You!