

Keynes's Economics: A Political Economy as Moral Science Approach to Macroeconomics and Macroeconomic Policy

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Abstract

The paper attempts to situate Keynes's approach to macroeconomics and macroeconomic policy within an ontological and anthropological framework that makes "political economy" a "moral science" in the ancient sense of the art of managing the "body politic" so as to enable citizens to live "good" lives. These would be lives creating and appropriating beauty and truth within relations of mutual recognition, i.e. lives filled with beauty, truth and love. The idea of what Keynes called "the ideal social republic of the future" - "the republic of my imagination" - to which this leads is the basis of his critique of the values dominant in "capitalism," the "essential characteristic" of which, he claims, is "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." In "Economic Possibilities for our Grandchildren," he describes this "main motive force" as "a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease."

For individuals to be actually able to live good lives in this sense requires a highly developed capacity for producing the material and other means (e.g. free time) required for such lives. It is the development of these means that justifies capitalism and the businessman. Once this development has been achieved, however, it will no longer be necessary to "pretend to ourselves and to everyone that fair is foul and foul is fair." We shall then be free

"to return to some of the most sure and certain principles of religion and traditional virtue - that avarice is a vice, that the exaction of usury is a misdemeanour, and the love of money is detestable, that those walk most truly in the paths of virtue and sane wisdom who take least thought for the morrow. We shall once more value ends above means and prefer the good to the useful. We shall honour those who can teach us how to pluck the hour and day virtuously and well, the delightful people who are capable to taking direct enjoyment in things, the lilies of the field who toil not, neither do they spin." (vol. X, pp. 330-1)

The economic will then be viewed instrumentally as means for the realization of "non-economic interests" and the function of "economists" will be analogous to the function of "dentists."

The role of economic policy in the present is to facilitate the development of the preconditions required for us to begin self-consciously to move toward this ideal (a transition point that Keynes, in 1930, placed 100 years into the future). Macroeconomic policy has as its main function counteracting the tendency of the "semi-criminal, semi-pathological propensities" dominant in capitalism to produce unemployment. Thus, interest, on this understanding, was an expression of an irrational "psychological attitude to liquidity" that did not reward any real sacrifice and acted as a barrier to full employment. For this reason the objective of monetary policy should be to keep interest rates as low as possible with the hope of eventually bringing

about the “euthanasia of the rentier.” In addition to minimizing the adverse impact on employment, this, Keynes claimed, would also significantly improve income distribution. The role of fiscal policy was to use state spending to supplement the inadequate “animal spirits” of entrepreneurs. The ethical ideas that provide the foundation of the approach explain Keynes’s insistence that this spending should be motivated by values different from those dominant in business.

These aspects of Keynes’s economics have much in common with Marx’s. The last part of the paper will elaborate some of these similarities. For instance, Marx’s ideal social republic is a “realm of freedom” defined, like Keynes’s, by the activities of creating and appropriating beauty and truth within relations of mutual recognition. Such activities require both highly developed “forces of production” and, related to this, what Marx calls “universally developed individuals.” Such development creates the individual capabilities required for minimizing the instrumental activity necessary to create the means for life in the realm of freedom and for the activities that define the realm of freedom itself. This is the basis of Marx’s definition of “wealth” both as the full development of individual capabilities and as “free time” – “free time, disposable time, is wealth itself, partly for the enjoyment of the product, partly for free activity which—unlike labour—is not dominated by the pressure of an extraneous purpose which must be fulfilled.” Though his view of how this ideal republic will emerge from capitalism differs radically from Keynes’s, Marx, like Keynes, both understands capitalism as dominated by irrational “passions” and claims it is a necessary stage in the historical process of development required to make the ideal republic part of real potentiality.

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Introduction

“The real problems of the future are first the maintenance of peace, of international co-operation and amity, and beyond that the profound moral and social problems of how to organise material abundance to yield up the fruits of a good life. These are the heroic tasks of the future.” (XXVII 260-1)¹

“Political economy” originally meant the management of the body politic with the objective of providing to members the material means of a good life. This is the ultimate sense in which it can be said to be a “moral science.” It is the sense I take Keynes to have in mind in his 1941 claim to Archbishop Temple that “along the lines of origin at least, economics – more properly called political economy – is a side of ethics.”² (as quoted in Skidelsky 2000, p. 264)

There is another sense deriving from this based on the difference between the kind of “being” having the potential for a good life and the kind studied in “natural science,” particularly in physics. Human being involves forms of “internal relations,” “self-determination” and “final causation” that, in contrast to the subject-matter of physics, must be taken into account if theory is to be realistic. These features of its subject-matter make a properly constituted

economics a “moral science” in the sense of a science whose foundational ideas and methods must be very different from those appropriate in “natural science.”

Keynes explicitly claims that, when properly constituted, economics – “more properly called political economy” - is a moral science in both these senses.

He claims the ultimate object of economics and economic policy is to provide individuals with the material means required for a good life. Such a life concerns “non-economic interests” – specifically it is a life filled with love, beauty and truth. The ultimate problem is “how to organize material abundance to yield up” these “fruits.”

He also claims that economics is a “moral science” in the second derivative sense. In his discussion with Roy Harrod of Tinbergen’s early work in econometrics, he writes:

"I also want to emphasise strongly the point about economics being a moral science. I mentioned before that it deals with introspection and with values. I might have added that it deals with motives, expectations, psychological uncertainties. One has to be constantly on guard against treating the material as constant and homogeneous. It is as though the fall of the apple to the ground depended on the apple's motives, on whether it is worth while falling to the ground, and whether the ground wanted the apple to fall, and on mistaken calculations on the part of the apple as to how far it was from the centre of the earth." (XIV 300)

An essential feature of Keynes’s treatment of economics as a moral science in this second sense is his psychological claim that the “essential characteristic of capitalism” is “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.” (IX 293) In “Economic Possibilities for our Grandchildren” he describes the money-loving aspect of this “main motive force” – “the love of money as a possession” - as “a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease.” (IX 329) In the same context, he associates the money-making and accumulating aspect – capitalist “purposiveness” - with a psychopathological denial of mortality. (IX 329-30) These claims about the “money-motives” underpin his conception of the “three fundamental psychological factors” of the General Theory: “the psychological propensity to consume, the psychological attitude to liquidity and the psychological expectation of future yield from capital-assets.” (VII 246-7)

The two senses of moral science come together in Keynes’s political economy in the fact that irrationality is one of the most important obstacles in the way of realizing the “true social republic.” This requires rational individuals. There are, however, “insane and irrational springs of wickedness in most men” (X 447) that oppose the development of rationality. This makes the achievement of the ideal a very long run project.

This paper provides textual evidence supporting these interpretive claims in the context of examining the framework they provide for macroeconomics and macroeconomic policy. The first part examines Keynes’s treatment of the “good life” and the idea of the “true social republic” he derives from it. The second elaborates his treatment of political economy as a moral science in his macroeconomics. The third examines the obstacle in the way of rational macroeconomic policy resulting from the influence of irrationality in conventional thinking about

macroeconomic theory and policy. Finally, the paper points to fundamental similarities between Keynes's understanding of political economy and Marx's.

I Keynes's conception of the "good life"

Keynes treats the "good" as objective and knowable. He claims the ultimate objective "goods" in this sense are "non-economic"; they are love, beauty and truth. It follows that the "ideal social republic" is objectively and knowably one where individuals are enabled to live "good" lives in this sense, lives filled with love, beauty and truth.

What Keynes means by the "good" is spelled out explicitly in "My Early Beliefs." There he associates his own view primarily with the view found in G.E. Moore's Principia Ethica. For Moore, "good" is a characteristic of states of mind, of "timeless, passionate states of contemplation and communion, largely unattached to 'before' and 'after'." (X 436) Such states are "organic unities" in the sense that the goodness of any part depends upon its relations to the whole so that the goodness of the whole is not simply the sum of the goodnesses of the parts. Thus the goodness of the "state of mind of being in love" depends "not merely on the nature of one's own emotions, but also on the worth of their object and on the reciprocity and nature of the object's emotions." (X 436) Love, beauty and truth constitute the content of these good states of mind.

"The appropriate subjects of passionate contemplation and communion were a beloved person, beauty and truth, and one's prime objects in life were love, the creation and enjoyment of aesthetic experience and the pursuit of knowledge. Of these love came a long way first." (X 436-7)

"MY Early Beliefs" also records Keynes's dissent from aspects of Moore's account. He claims to have always insisted that the goodness of any particular state of mind was internally related to past and future states; he was always a proponent of "organic unity through time."

He also came to expand the kinds of "states of mind" which were valuable; providing a opening for irrationality and wickedness as sources of valuable experience:

"It [Moore's conception of the Ideal] ignored certain powerful and valuable springs of feeling. Some of the spontaneous, irrational outbursts of human nature can have a value from which our schematism was cut off. Even some of the feelings associated with wickedness can have value. And in addition to the values arising out of spontaneous, volcanic and even wicked impulses, there are many objects of valuable contemplation and communion beyond those we knew of – those concerned with the order and pattern of life among communities and the emotions which they can inspire." (X 448-9)

Most significantly, he came to dissent from Moore's account of the method by which the "good" was known. Moore's account, Keynes claims, involved a mistaken view of experience, logic and language. In each case the problem was what Frank Ramsey had defined as "scholasticism" – "treating what is vague as if it were precise and trying to fit it into an exact logical category." (X 343) There are grounds for believing that this dissent issues from finding grounds in experience for treating social reality as a whole and not simply the "good" as an

“organic unity” – a system of internal relations. This change produces one of the key features distinguishing a “moral science” from physics, the treatment of the relations of individuals as internal relations.

With these changes Keynes continued to treat the “good life” as something objective and knowable through direct intuitive observation and as consisting primarily of the “non-economic” goods - love, beauty and truth. “Actual experience” can be used, he implicitly claims, to correct Moore’s claims about the good. The “fundamental intuitions of Principia Ethica ... are much too few and too narrow to fit actual experience which provides a richer and more various content.” (X 444) In his discussion in “The End of Laissez-Faire” of how to go about reaching rational decisions about the extent to which “the money-motive” should be allowed to dominate life, he points to the experience of “feeling” as cognitive, as able to provide rational grounds for such value judgements.

“A preference for arranging our affairs in such a way as to appeal to the money-motive as little as possible, need not be entirely a priori, but may be based on the comparison of experiences. Different persons, according to their choice of professions, find the money-motive playing a large or small part in their daily lives, and historians can tell us about other phases of social organization in which this motive has played a much smaller part than it plays now. ... 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.” (IX 293-4)

I.1 The “true social republic”

This view of the “good life” is the basis of Keynes’s claims about the “true social republic,” the “ideal social republic of the future,” the “republic of my imagination.”

The phrase “true social republic” occurs in the essay “Liberalism and Labour” in the context of denying that “ideals to build up a true social republic” are found in the Labour Party. The required ideals are inconsistent with “the passions of malignity, jealousy, hatred of those who have wealth and power” that, Keynes claims, play a significant role in Labour. (IX 300)

In the 1933 essay, “National Self-Sufficiency,” independence to make “experiments towards the ideal social republic of the future” is put forward as one of the main justifications for the policy.

"Thus, regarded from this point of view, the policy of an increased national self-sufficiency is to be considered not as an ideal in itself but as directed to the creation of an environment in which other ideals can be safely and conveniently pursued." (XXI 240)

"The point is that there is no prospect for the next generation of a uniformity of economic systems throughout the world, such as existed, broadly speaking, during the nineteenth century; that we all need to be as free as possible of interference from economic changes elsewhere, in order to make our own favourite experiments towards the ideal social republic of the future; and that a deliberate movement towards greater national self-sufficiency and economic isolation will make our task easier, in so far as it can be accomplished without excessive economic cost." (XXI 241)

The “ideal social republic” is very different from capitalism, particularly from the capitalism of the inter-war period.

"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. But when we wonder what to put in its place, we are extremely perplexed." (XXI 239)

This criticism is extended to capitalism as a whole throughout the Essays in Persuasion, most obviously in “Economic Possibilities for Our Grandchildren.” Though he claims that the ideals to build up a true social republic are not found in the Labour Party, Keynes insists that “the republic of my imagination lies on the extreme left of celestial space.” (IX 309) In fact, as we shall see, his conception of this republic is very like Marx’s.

I.2 The “economic” as means to the realization of “non-economic goods”: economists as “dentists”

According to Keynes, the true conception of the “economic” is as a means to the actualization of non-economic goods. Since the ultimate goods are all things that when shared increase in amount and since, on the ontological premise of “internal relations,” the end determines the means with “the rigidity of a law” (Marx 1976A, p. 284), the economic means required for a good life are limited and capable ultimately of being met. So the “economic problem” in this sense, the problem of providing individuals with the material means required for a good life, can be solved. Keynes looked forward to its being solved in the first half of this century.

This conception of the “economic problem” is found throughout his writing. The passage I’ve placed at the beginning of this paper is found in a draft for his 1943 maiden House of Lords speech on the Beveridge Report:

"Moreover, to make a bogey of the economic problem is, in my judgement, grievously to misunderstand the nature of the tasks ahead of us. Looking beyond the immediate post-war period, when our economic difficulties will be genuine and must take precedence over all else - perhaps for the last time - the economic problems of the day [that] perplex us, will lie in solving the problems of an era of material abundance not those of an era of poverty. It is not any fear of a failure of physical productivity to provide an adequate material standard of life that fills me with foreboding. The real problems of the future are first the maintenance of peace, of international co-operation and amity, and beyond that the profound moral and social problems of how to organise material abundance to yield up the fruits of a good life. These are the heroic tasks of the future. But there is nothing, My Lords, in what we are discussing today which need frighten a mouse." (XXVII 260-1)

We need, he claims, to be “slowly reconstructing our social system” with the ends in view of “a decent level of consumption for everyone” and, with that “economic” end realized, “the occupation of our energies in the non-economic interests of our lives.” (XXI 393)³

When the economic is given its proper instrumental role, the understanding and management of this role in the body politic will be “like dentistry”:

"But, chiefly, do not let us overestimate the importance of the economic problem, or sacrifice to its supposed necessities other matters of greater and more permanent significance. It should be a matter for specialists - like dentistry. If economists could manage to get themselves thought of as a humble, competent people, on a level with dentists, that would be splendid!"⁴ (IX 332)

With the "economic problem" solved, we will be free

"to return to some of the most sure and certain principles of religion and traditional virtue - that avarice is a vice, that the exaction of usury is a misdemeanour, and the love of money is detestable, that those walk most truly in the paths of virtue and sane wisdom who take least thought for the morrow. We shall once more value ends above means and prefer the good to the useful. We shall honour those who can teach us how to pluck the hour and day virtuously and well, the delightful people who are capable of taking direct enjoyment in things, the lilies of the field who toil not, neither do they spin." (IX 330-1)

This is immediately followed by a warning, however, that we will not be able to begin self-consciously to actualize this ideal for at least another hundred years and that the solution of the economic problem that this requires will itself require us to continue to pretend to ourselves that "fair is foul and foul is fair."

"But beware! The time for all this is not yet. For at least another hundred years we must pretend to ourselves and to everyone that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still. For only they can lead us out of the tunnel of economic necessity into daylight."⁵ (IX 331)

II Irrationality

"Our [early Bloomsbury's] comments on life and affairs were bright and amusing, but brittle - as I said of the conversation of Russell and myself with Lawrence - because there was no solid diagnosis of human nature underlying them. Bertie in particular sustained simultaneously a pair of opinions ludicrously incompatible. He held that in fact human affairs were carried on after a most irrational fashion, but that the remedy was quite simple and easy, since all we had to do was to carry them on rationally. A discussion of practical affairs on these lines was really very boring. And a discussion of the human heart which ignored so many of its deeper and blinder passions, both good and bad, was scarcely more interesting." (X 449)

Keynes makes unemployment the main difficulty in the way of generating material abundance. His explanation of unemployment also points, however, to a more fundamental obstacle in the way of actualizing the true social republic - irrationality. The essential difference between his early and his mature beliefs recorded in "My Early Beliefs" concerns the belief that "human nature is reasonable" - the belief that "the human race already consists of reliable, rational, decent people, influenced by truth and objective standards, who can be safely released from the outward restraints of convention and traditional standards and inflexible rules of conduct, and left, from now onwards, to their own sensible devices, pure motives and reliable intuitions of the

good.” (X 447) This belief – this “a priori view of human nature” – was, he now claims, “disastrously mistaken.”

In fact, there are “insane and irrational springs of wickedness in most men” so that “civilisation is a thin and precarious crust erected by the personality and the will of a very few, and only maintained by rules and conventions skillfully put across and guilefully preserved.”⁶ (X 447) Moreover, Keynes assumes that in many individuals these springs are too constitutionally strong to be overcome by any change in social conditions. This makes “the task of transmuting human nature” much more difficult than it would otherwise be. It can, Keynes suggests at various points, only be accomplished through eugenics.⁷

This provides another justification for less than ideal intermediate arrangements as binding the “insane and irrational springs of wickedness” that would otherwise find direct expression. This justification is explicitly invoked for “the motive of money-making and the environment of private wealth-ownership” in the General Theory. (VII 374, quoted below) “My Early Beliefs” and “Melchior” both acknowledge this role for what in “Melchior” is referred to as the “Tablets of the Law” (X 429) and make it the basis of Keynes’s apology for early Bloomsbury “irreverence.” This is one aspect of Keynes’s understanding of the nature and sources of human irrationality that makes his approach to social change “conservative.”⁸ In this he is more conservative than Marshall who, like Marx, placed much more emphasis on social conditions as the source of developmental failure (see note 5).

This leads to the second sense in which “political economy” as practiced by Keynes is a “moral science.” This is the role assigned to internal relations, self-determination and final causation in explanations of economic phenomena, specifically of macroeconomic phenomena. Fully rational self-determination and final causation are found where individuals have fully developed capabilities for understanding and actualizing the good. This necessitates a particular kind of social relations, understood as “internal relations,” as an essential aspect of the “true social republic” and of the means required for its realization (such relations are means as well as ends because they are required for the full development of individual capabilities).

Keynes claims the psychology dominant in capitalism is far from fully “rational” in this sense. It is irrational – “psychological” – in the specific way he takes as constituting the “essential characteristic of capitalism” – “the dependence upon an intense appeal to the money-loving and money-making instincts of individuals as the main motive force of the economic machine.” He makes this claim in the context of sharply contrasting the motives dominant in capitalism with the rational motives that would characterize life in a true social republic. This is a persistent theme throughout the Essays in Persuasion.

Keynes also links the “money-motives” understood in this way to more “dangerous human proclivities.”

“For my own part, I believe that there is social and psychological justification for significant inequalities of incomes and wealth, but not for such large disparities as exist today. There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition. Moreover, dangerous human proclivities can be canalised into comparatively harmless channels by the existence of opportunities for money-making and private wealth, which, if they cannot be satisfied in this way, may find their outlet in

cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandisement. It is better that a man should tyrannise over his bank balance than over his fellow-citizens; and whilst the former is sometimes denounced as being but a means to the latter, sometimes at least it is an alternative. But it is not necessary for the stimulation of these activities and the satisfaction of these proclivities that the game should be played for such high stakes as at present. Much lower stakes will serve the purpose equally well, as soon as the players are accustomed to them. The task of transmuting human nature must not be confused with the task of managing it. Though in the ideal commonwealth men may have been taught or inspired or bred to take no interest in the stakes, it may still be wise and prudent statesmanship to allow the game to be played, subject to rules and limitations, so long as the average man, or even a significant section of the community, is in fact strongly addicted to the money-making passion.”⁹ (VII 374)

II.1 The role of irrationality in Keynes’s macroeconomics

This psychological view of the “essential characteristic of capitalism” also underpins Keynes’s understanding of the “three fundamental psychological factors” of his macroeconomics: “the psychological propensity to consume, the psychological attitude to liquidity and the psychological expectation of future yield from capital-assets.”¹⁰ That Keynes does in fact attribute significant irrationality to individuals in his macroeconomics is made obvious by claims such as the following about the “vast majority” of participants in financial markets:

“The vast majority of those who are concerned with the buying and selling of securities know almost nothing whatever about what they are doing. They do not possess even the rudiments of what is required for a valid judgment, and are the prey of hopes and fears easily aroused by transient events and as easily dispelled. This is one of the odd characteristics of the capitalist system under which we live, which, when we are dealing with the real world, is not to be overlooked.” (VI 323)

His treatment of the “psychological propensity to consume” gives a significant role to irrational saving motives. In “Economic Possibilities for Our Grandchildren” he identifies capitalist “purposiveness” with such motives. He looks forward to a time when, though “there will still be many people with intense, unsatisfied purposiveness who will blindly pursue wealth,”

“the rest of us will no longer under any obligation to applaud and encourage them. For we shall enquire more curiously than is safe today into the true character of this 'purposiveness' with which in varying degrees Nature has endowed almost all of us. For purposiveness means that we are more concerned with the remote future results of our actions than with their own quality or their immediate effects on our own environment. The 'purposive' man is always trying to secure a spurious and delusive immortality for his acts by pushing his interest in them forward into time. He does not love his cat, but his cat's kittens; nor, in truth, the kittens, but only the kittens' kittens, and so on forward forever to the end of catdom. For him jam is not jam unless it is a case of jam tomorrow and never jam today. Thus by pushing his jam always forward into the future, he strives to secure for his act of boiling it an immortality.” (IX 329-30)

In “A Short View of Russia,” “the social appeal to the hoarding instinct” is pointed to as “the foundation of the necessary provision for the family and for the future,” i.e. as the foundation of saving:

"to me it seems clearer every day that the moral problem of our age is concerned with the love of money, with the habitual appeal to the money motive in nine-tenths of the activities of life, with the universal striving after individual economic security as the prime object of endeavour, with the social approbation of money as the measure of constructive success, and with the social appeal to the hoarding instinct as the foundation of the necessary provision for the family and for the future. The decaying religions around us, which have less and less interest for most people unless it be as an agreeable form of magical ceremonial or of social observance, have lost their moral significance just because - unlike some of their earlier versions - they do not touch in the least degree on these essential matters. A revolution in our ways of thinking and feeling about money may become the growing purpose of contemporary embodiments of the ideal." (IX 268-9)¹¹

This conception of saving is also found in The Economic Consequences of the Peace. Keynes claims that in the 19th century

"the duty of 'saving' became nine-tenths of virtue and the growth of the cake the object of true religion. There grew round the non-consumption of the cake all those instincts of puritanism which in other ages has withdrawn itself from the world and has neglected the arts of production as well as those of enjoyment. And so the cake increased; but to what end was not clearly contemplated. Individuals would be exhorted not so much to abstain as to defer, and to cultivate the pleasures of security and anticipation. Saving was for old age or for your children; but this was only in theory - the virtue of the cake was that it was never to be consumed, neither by you nor by your children after you." (II 12)

Keynes claimed the psychological propensity to save had been significantly changed by the war. This illustrates his treatment of the nature of capitalist irrationality as varying significantly over time and space with changes in social relations. The changes in psychology pointed to in The Economic Consequences of the Peace are the same as those on which Keynes bases his forecast of the future of the US balance of payments in his final posthumously published Economic Journal article.¹²

His treatment of "the psychological attitude to liquidity" also invokes "instincts" in this way.¹³ The identification of liquidity-preference with the "propensity to hoard" in the General Theory (VII 174)¹⁴ reasserts the relation between the "love of money" and the "hoarding instinct" elaborated in the passage from "A Short View of Russia" just quoted. In the Tract on Monetary Reform (IV 55), Keynes points to "the deep instincts by which the love of money protects itself" as the source of a "violent prejudice" on the part of rentiers against the capital levy, the rational method of preventing the excessive growth of rentier wealth.¹⁵

The summary statement of the functioning of liquidity preference in the 1937 Quarterly Journal of Economics article emphasizes this aspect.

"Why should anyone outside a lunatic asylum wish to use money as a store of wealth?

"Because, partly on reasonable and partly on instinctive grounds, our desire to hold money as a store of wealth is a barometer of the degree of our distrust of our own calculations and conventions concerning the future. Even though this feeling about money is itself conventional or instinctive, it operates, so to speak, at a deeper level of our motivation. It

takes charge at the moments when the higher, more precarious conventions have weakened. The possession of actual money lulls our disquietude; and the premium which we require to make us part with money is the measure of the degree of our disquietude." (XIV 116)¹⁶

Finally, his explanation of "the psychological expectation of future yield from capital assets" connects this expectation to mistaken "conventional" forecasting practices that ignore the facts that the long run future is "uncertain" in Keynes's particular sense and that, though this is so, the one thing knowable by a rational individual practically with certainty is that it will be different from the present and the past (the "conventional" practices have individuals assume that it will be like the present and the past). The irrationality of the practices arises from their anchoring in the same "instincts" that anchor the irrational aspects of the "psychological propensity to consume" and the "psychological attitude to liquidity." This anchoring makes the practices psychological means of escaping the intolerable anxiety that would be generated by consciousness of the fact of "uncertainty" about a long run future that contains, as a certain fact, our own death ("in the long run we are all dead"). As we have seen, Keynes claims the "purposiveness" with which the forecasting is connected is itself an expression of the denial of mortality. For these psychological reasons, "peace and comfort of mind require that we should hide from ourselves how little we foresee."

Individuals for whom this psychology is characteristic will also be prone to periodic "waves of irrational psychology" in which initial flights into manic optimism are followed by sharp collapses into depressive pessimism. The effect of such waves on intended investment spending is the main source of the trade cycle in Keynes's macroeconomics. The "three fundamental psychological factors" reinforce each other in producing this cycle. The psychological propensity to save and psychological liquidity-preference reach a minimum at the height of a boom fueled by manic optimism. They reach a maximum at the bottom of a depression fueled by depressive pessimism.¹⁷

II.2 A moral science framework for macroeconomic policy

This then provides the framework for rational macroeconomic policy whose main function is to counteract the effect of capitalist psychopathology on employment. What Keynes understands such policy to be doing however is connected to the first sense of political economy as a moral science; it is building the foundation for an ideal social republic. As he put it in 1942:

"We are immeasurably richer than our predecessors. Is it not evident that some sophistry, some fallacy, governs our collective action if we are forced to be so much meaner than they in the embellishments of life? ... With a big programme carried out at a properly regulated pace we can hope to keep employment good for many years to come. We shall, in very 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." (XXVII 270)

Consistent with this, the values underpinning much public spending were to be "non-economic."¹⁸

"Where we are using up resources, do not let us submit to the vile doctrine of the nineteenth century that every enterprise must justify itself in pounds, shillings and pence of cash income, with no other denominator of values but this. I should like to see the war memorials of this

tragic struggle take the shape of an enrichment of the civic life of every great centre of population. Why should we not set aside, let us say, £50 millions a year for the next twenty years to add in every substantial city of the realm the dignity of an ancient university or a European capital to our local schools and their surroundings, to our local government and its offices, and above all perhaps, to provide a local centre of refreshment and entertainment with an ample theatre, a concert hall, a dance hall, a gallery, a British restaurant, canteens, cafés and so forth. Assuredly we can afford this and much more. Anything we can actually do we can afford. Once done, it is there. Nothing can take it from us.” (XXVII 270)

Also, as productive capacity increased the solution to the problem of unemployment was increasingly to be sought in the expansion of “free time.”¹⁹ This too is an essential aspect of gradually moving toward the rational occupation of life with “non-economic interests.” It is for this reason that Marx, as we shall see, defines “wealth” itself as “free time.”

The role of rational monetary policy was to keep interest rates as low as possible. They were not to be used to control booms.

“If we play with dear money on the ground that it is ‘healthy’ or ‘natural’, then, I have no doubt, the inevitable slump will ensue. We must avoid it, therefore, as we would hell-fire. ... A low enough long-term rate of interest cannot be achieved if we allow it to be believed that better terms will be obtainable from time to time by those who keep their resources liquid. The long-term rate of interest must be kept continuously as near as possible to what we believe to be the long-term optimum. It is not suitable to be used as a short-period weapon.” (XXI 389)

Keynes anticipated rates becoming low enough to euthanise “the rentier aspect of capitalism,” a form of expression of the “money-loving and money-making instincts” he regarded as more psychopathological than the “enterprise” aspect. Also, by reducing rentier income, which, he claimed, “rewards no genuine sacrifice,” the minimization of interest rates would improve income distribution. (VII 374-7)

II.3 Economics as “a mathematical application of the hedonistic calculus of Bentham”

This “moral science” framework for macroeconomic theory and policy differs from the framework provided by the “the utilitarian ethics and the utilitarian psychology” from which the neoclassical approach now dominant derives. Keynes explicitly rejects both “the utilitarian ethics and the utilitarian psychology.”

In addition to setting out a positive conception of the good, “My Early Beliefs” is very critical of the Benthamite utilitarian conception. He points to it as

“the worm which has been gnawing at the insides of modern civilisation and is responsible for its present moral decay. We used to regard the Christians as the enemy, because they appeared as the representatives of tradition, convention and hocus-pocus. In truth it was the Benthamite calculus, based on an over-valuation of the economic criterion, which was destroying the quality of the popular Ideal.” (X 445-6)

In a 1944 letter to Abba Lerner, Keynes points to Moore's idea of the "good" as an organic whole as a reason for doing this. As we shall see, he also points to the atomism of utilitarianism as a ground for rejecting it as a psychological foundation for economics.

"He found Abba Lerner's The Economics of Control a 'grand book', deploring only its reliance on 'Benthamite arithmetic', which led Lerner to advocate income equality. 'The whole complication and fascination (and truth) of the ethical doctrine of organic unity passes you by ...' he wrote to him, in a half-remembered echo of the debates of his youth." (Skidelsky 2000, p. 361)

Keynes also explicitly rejects the conception of economics as "a mathematical application of the hedonistic calculus of Bentham." In his biographical essay on Marshall, in a footnote to the claim that Jevons's Theory of Political Economy "lives in the tenuous world of bright ideas," he says:

"How disappointing are the fruits, now that we have them, of the bright idea of reducing Economics to a mathematical application of the hedonistic calculus of Bentham!" (X 184)

In his discussion of Edgeworth's Mathematical Psychics, he says that Edgeworth

"was disinclined, in company with most other economists of the classical school, to reconsider how far the initial assumptions of the marginal theory stand or fall with the utilitarian ethics and the utilitarian psychology, out of which they sprang and which were sincerely accepted, in a way no one accepts them now, by the founders of the subject. Mill, Jevons, the Marshall of the 'seventies, and the Edgeworth of the late 'seventies and early 'eighties believed the utilitarian psychology and laid the foundations of the subject in this belief. The later Marshall and the later Edgeworth and many of the younger generation have not fully believed; but we still trust the superstructure without exploring too thoroughly the soundness of the original foundations." (X 260)

One of the grounds Keynes gives for this rejection is the inappropriateness of the "atomic hypothesis" as a foundation for social theory.²⁰ This has as one of its implications the critical rejection of the use made of deductive axiomatic reasoning in Benthamite economics. Such reasoning requires that axioms be capable of statement in precise language invariant in meaning. This in turn requires, however, that the material to which the reasoning is to be applied be sufficiently "atomic" in character, i.e. composed of individuals whose "identities" remain, to the degree required by the reasoning, unchanged with changes in their relations. It is only on this assumption that language describing these identities will have a sufficiently precise meaning that remains invariant with context.

A.N. Whitehead makes this point as follows:

"A special science takes the philosophic assumptions and transforms them into comparative clarity by narrowing them to the forms of the special topic in question. Also even in reasoning thus limited to special topics, there is no absolute conclusiveness in the deductive logic. The premises have assumed their limited clarity by reason of presuming the irrelevance of considerations extraneous to the assigned topic. The premises are conceived in the simplicity of their individual isolation. But there can be no logical test for the possibility that deductive procedure, leading to the elaboration of compositions, may introduce into relevance

considerations from which the primitive notions of the topic have been abstracted. The mutual conformity of the various perspectives can never be adequately determined.” (Whitehead 1938, pp. 105-7)

This argument also applies to the use of the “variable” in logical reasoning, e.g. in algebra.

"In logical reasoning, which proceeds by the use of the variable, there are always two tacit presuppositions - one is that the definite symbols of composition can retain the same meaning as the reasoning elaborates novel compositions. The other presupposition is that this self-identity can be preserved when the variable is replaced by some definite instance. Complete self-identity can never be preserved in any advance to novelty. The only question is, as to whether the loss is relevant to the purposes of the argument. The baby in the cradle, and the grown man in middle age, are in some senses identical and in other senses diverse. Is the train of argument in its conclusions substantiated by the identity of vitiated by the diversity?" (Whitehead 1938, pp.105-7) ²¹

This ontological point underpins Keynes’s claims about formal logic in his biographical essay on Ramsey (X 338-9); his endorsing in that essay and in his critical discussions of economic methods of Ramsey’s criticism of “scholasticism”; his rejection of “physics” understood as deductive reasoning from well-defined invariant premises as a model for economics; his claim that, in contrast to the material of physics, the “material” of economics is non-homogeneous through time (one of the facts about it that severely limits the applicability to it of mathematical and statistical methods); and his concept of “uncertainty.”

He explicitly criticizes and rejects Benthamite economics on this ground.

“Mathematical Psychics has not, as a science or a study, fulfilled its early promise. In the ‘seventies and ‘eighties of the last century it was reasonable, I think, to suppose that it held great prospects. When the young Edgeworth chose it, he may have looked to find secrets as wonderful as those which the physicists have found since those days. But, as I remarked in writing about Alfred Marshall’s gradual change of attitude towards mathematico-economics (pp. 186-7 above), this has not happened, but quite the opposite. The atomic hypothesis which has worked so splendidly in physics breaks down in psychics. We are faced at every turn with the problems of organic unity, of discreteness, of discontinuity - the whole is not equal to the sum of the parts, comparisons of quantity fail us, small changes produce large effects, the assumptions of a uniform and homogeneous continuum are not satisfied.” (X 262)

In his essay on Marshall, he points to the social ontological form of the premise of “organic unity” (“man is largely a creature of circumstances and changes with them”) as the basis of the distinction Marshall drew “between the objects and methods of the mathematical sciences and those of the social sciences” (X 197) and as constituting “the profundity of his [Marshall’s] insight into the true character of his subject in its highest and most useful developments.” (X 188) The premise also underpins much of his critical discussion of “Tinbergen’s method.”

It is the ignoring of the implications of “internal relations” for “meaning” that constitutes the error in method Keynes, following Ramsey, calls “scholasticism.” As defined by Ramsey, “the essence” of “scholasticism” “is treating what is vague as if it were precise and trying to fit it into an exact logical category.” (X 343) As noted above, “My Early Beliefs” criticizes

“Moore’s method” on this ground. Student notes taken in Keynes’s 1933 Cambridge lectures record him as making use of the concept in his discussion of the methods appropriate in economics (see notes B25-B26 of Robert Bryce, G6-G8 of Marvin Fallgetter , and J13 of Lorie Tarshis in Rymes 1989A and Rymes’s synthesis of these notes in Rymes 1989B, pp. 101-3).

Keynes also rejects the Benthamite approach to forecasting the future. In the 1946 essay, "Some Economic Consequences of a Declining Population", he claims:

"it was, I think, an ingredient in the complacency of the nineteenth century that, in their philosophical reflections on human behaviour, they accepted an extraordinary contraption of the Benthamite School, by which all possible consequences of alternative courses of action were supposed to have attached to them, first a number expressing their comparative advantage, and secondly another number expressing the probability of their following from the course of action in question; so that multiplying together the numbers attached to all the possible consequences of a given action and adding the results, we could discover what to do. in this way a mythical system of probable knowledge was employed to reduce the future to the same calculable status as the present. No one has ever acted on this theory. But even today I believe that our thought is sometimes influence by some such pseudo-rationalistic notions." (XIV 124)

This Benthamite approach ignores the fact of internal relations both in its conception of the good and in its conception of social reality in general. One consequence is denial of the “uncertainty” to which internal relations give rise.

III “Bedlamite” theory and policy

In addition to arguing that conventional ideas about macroeconomic theory and policy are mistaken, Keynes claims they are themselves significantly influenced by irrationality in the sense of psychopathology.

III.1 “Bedlamite economics”

The 1937 Quarterly Journal of Economics article characterizes the mistaken Benthamite approach to forecasting as having the same psychological motivation as the “conventional” approach to forecasting future yield, namely, the psychological need to deny the fact of uncertainty.

"Though this [conventional forecasting] is how we behave in the market place, the theory we devise in the study of how we behave in the market place should not itself submit to market-place idols. I accuse the classical economic theory of being itself one of these pretty, polite techniques which tries to deal with the present by abstracting from the fact that we know very little about the future." (XIV 115)

As we have seen, Keynes claims a key aspect of the mistaken character of the Benthamite approach is the mistaken identification of reason with formal logic, the idea of economic science as a deductive system erected on the basis of fixed axioms treated as self-evidently true. The psychopathological basis of this error shows up in the immunity of those

who make it to a reductio ad absurdum argument. Keynes says of Hayek's Prices and Production:

"The book, as it stands, seems to me to be one of the most frightful muddles I have ever read, with scarcely a sound proposition in it beginning with page 45, and yet it remains a book of some interest which is likely to leave its mark on the mind of the reader. It is an extraordinary example of how, starting with a mistake, a remorseless logician can end up in Bedlam." (XII 252)

In the General Theory, "foolish consistency" of the same kind is attributed to Lionel Robbins. (VII 20, note 2)²²

Keynes explicitly claims that those whose psychology predisposes them to such reasoning are badly suited for the study of economics.²³ He implicitly provides an elaboration of the psychological basis for this in his psycho-biographical essays on Newton. His central concern in these essays is to dispute the idea of Newton as "the first and greatest of the modern age of scientists, a rationalist, one who taught us to think on the lines of cold and untingered reason." (X 363) Against this view he argues that "in vulgar modern terms Newton was profoundly neurotic of a not unfamiliar type, but - I should say from the records - a most extreme example." (X 364)

"As many hundreds of pages of unpublished manuscript survive to testify, Newton was seeking the philosopher's stone, the Elixir of Life and the transmutation of base metals into gold. He was, indeed, a magician who believed that by intense concentration of mind on traditional hermetics and revealed books he could discover the secrets of nature and the course of future events, just as by the pure play of mind on a few facts of observation he had unveiled the secrets of the heavens. Whilst his work looked forward, and led the way, to all the horrors of modern science, his own spirit looked back beyond the middle ages to the traditional mysteries of the most ancient East." (X 377)

Keynes also finds the same psychopathology at work in orthodox theories of saving and money. He claims, for instance, that there is "a deep-seated obsession associating idle balances ... with some aspect of current saving." Having attempted once again in "Alternative Theories of the Rate of Interest" to correct the error in reasoning to which this leads, he writes:

"I emphasise these obvious matters²⁴ to clear our minds of the idea that the quantity of hoards depends in any way on what people are doing with their savings, or that there is any connection between idle balances and the conception (meaningless on my definitions) of idle savings. But I have only a limited hope of success. There is a deep-seated obsession associating idle balances, not with the action of the banks in fixing the supply of cash or with the attitude of the public towards the comparative attractions of cash and other assets, but with some aspect of current savings."²⁵ (XIV 214)

Student notes taken in Keynes's 1934 Cambridge lectures have him associating this error with "Bedlamite economics," the "Bedlamite Economist" (see notes C33 of Robert Bryce and O20 of Bryn Thring in Rymes 1989A and Rymes synthesis of these notes in Rymes 1989B, p. 146)

In the General Theory he makes use of a metaphor taken from Ibsen's Wild Duck to point to the influence of this "deep-seated obsession" on Hayek's view that "there must be two

sources of supply to meet the investment demand-schedule; namely, savings proper, which are the savings dealt with by the classical school, plus the sum made available by any increase in the quantity of money (this being balanced by some species of levy on the public, called ‘forced saving’ or the like).” (VII 183) He says of the policy conclusion Hayek derives from this “muddle” that:

“at this point we are in deep water. ‘The wild duck has dived down to the bottom – as deep as she can get – and bitten fast hold of the weed and tangle and all the rubbish that is down there, and it would need an extraordinarily clever dog to dive after and fish her up again.’” (VII 183)

III.2 “Lunatic” macroeconomic policy

Keynes frequently invokes irrationality to explain mistaken public policy. Characterizing the forces leading to the Versailles Treaty, he writes:

“The proceedings of Paris all had this air of extraordinary importance and unimportance at the same time. The decisions seemed charged with consequences to the future of human society; yet the air whispered that the word was not flesh, that it was futile, insignificant, of no effect, dissociated from events; and one felt most strongly the impression, described by Tolstoy in War and Peace or by Hardy in The Dynasts, of events marching on to their fated conclusion uninfluenced and unaffected by the celebrations of statesmen in council:

Spirit of the Years

Observe that all wide sight and self-command
Deserts these throngs now driven to demonry
By the Immanent Unrecking. Nought remains
But vindictiveness here amid the strong,
And there amid the weak an impotent rage.

Spirit of the Pities

Why prompts the Will so senseless-shaped a doing?

Spirit of the Years

I have told thee that It works unwittingly,
As one possessed not judging. (II 2-3)²⁶

This irrationality reappears explicitly treated as psychopathology in his treatment of the individual negotiators. For instance, he finds a source for Woodrow Wilson’s failures in a “Freudian complex.”

“The reply of Brockdorff-Rantzau inevitably took the line that Germany had laid down her arms on the basis of certain assurances, and that the treaty in many particulars was not consistent with these assurances. But this was exactly what the President could not admit; in the sweat of solitary contemplation and with prayers to God he had done nothing that was not just and right; for the President to admit that the German reply had force in it was to destroy his self-respect

and to disrupt the inner equipoise of his soul; and every instinct of his stubborn nature rose in self-protection. In the language of medical psychology, to suggest to the President that the treaty was an abandonment of his professions was to touch on the raw a Freudian complex. It was a subject intolerable to discuss, and every subconscious instinct plotted to defeat its further exploration." (II 34)

Puritanism and sadism understood psychoanalytically are explicitly pointed to in explanation of conventional ideas about monetary policy, specifically in explanation of the policy of increasing interest rates to end a boom. In A Treatise on Money he describes those (e.g. Hayek) who justify this with the claim "that the real wealth of the community increases faster, in spite of appearances to the contrary, during a depression than during a boom" as "puritans of finance – sometimes extreme individualists, who are able, perhaps, to placate in this way their suppressed reactions against the distastefulness of capitalism - who draw a gloomy satisfaction from the speculative and business losses, the low prices, and high real wages, accompanied, however, by unemployment, which characterise the typical depression." (V, 246)²⁷

In the original galley of a reply to Dennis Robertson's Economic Journal review of the Treatise, Keynes explicitly associates this psychological explanation with psychoanalysis. In the last paragraph of his review, Robertson had expressed some sympathy with the puritans of finance and suggested their policy of increasing interest rates to end a boom was not "a relic of sadistic barbarism." Keynes replies:

"Mr Robertson's last paragraph of all – yes! a mere relic of Sadistic – well, not so much barbarism as puritanism. But at this point psycho-analysis must take charge and economic analysis withdraw discreetly." (XIII 238)

Keynes also frequently claimed that the attitudes of public authorities to gold and the gold standard involved irrational psychological factors that stood in the way of the kind of monetary management required for escape from and avoidance of slumps. Explaining in 1929 why he had earlier made the mistake of believing the ending of gold convertibility in most countries would free gold for foreign exchange reserves, he says that he

"was forgetting that gold is a fetish. I did not foresee that ritual observances [maintenance of gold reserves against circulating currency] would, therefore, be continued after they had lost their meaning." (XXVII 776)

The unnecessary reserves against circulating currency and the preference of central banks for holding foreign exchange reserves in gold rather than deposits in convertible foreign currencies created a shortage of gold and a tendency to excessively high interest rates as nervous central banks competed with each other for gold. Keynes frequently singled out France as a place where this fetish was particularly strong, describing it in a February 1933 Daily Mail article as "the last home of the bullionist complex and of ultra-conservatism in all matters concerning cash." (XXI 231)

In his Treatise on Money bibliographic reference to "the Freudian theory of the love of money, and of gold in particular," he says of a prophecy made by Ernest Jones in one of the articles in the references he cites :

“The following prophecy, written by Dr Jones in 1917, may be reckoned, perhaps, a success for the psycho-analytic method: ‘The ideas of possession and wealth, therefore, obstinately adhere to the idea of “money” and gold for definite psychological reasons. This superstitious attitude will cost England in particular many sacrifices after the war, when efforts will probably be made at all costs to reintroduce a gold currency’ (op. cit. p. 172 [see Jones 1961, p. 129]).” (VI 258-9)

Keynes associates the same irrationality and psychopathology with conventional beliefs about fiscal policy. An irrational “love of money, and of gold in particular” and an irrational avoidance of fear of death through denial and the projection outward of sadistic destructiveness explain the irrational preference for “gold-mining” and “war” as objects of public spending, preferences satirized in the General Theory (VII 129-31).

The Puritanism said to characterize private attitudes to saving is also said to characterize public policy attitudes. In the student notes made in his 1935 Cambridge lectures, Keynes is recorded as pointing to “strong Puritan thinking toward grandiose expenditure” as an obstacle to rational fiscal policy and as linking such thinking to “pecuniary psychology.”

“Position [excess saving at full employment] further hampered by still strong Puritan thinking toward grandiose expenditures.

“There have been other historical forms of extravagance – but in England they’ve lost their virtue (Gladstonian finance). – the great civic buildings of antiquity represented a high proportion of Income – The readiness of the Egyptians to build pyramids, etc. a great help to maintaining employment.

“We’ve cut off some grand possibilities for investment with our pecuniary psychology --

“In some modern state – this Puritanism disappearing – The grandiosity of Russia, Germany and Italy.

“Before we shall escape from our Puritanism we shall have to have a new economic theory.” (see notes L23 of Lorie Tarshis in Rymes 1989A)

Keynes frequently attributes opposition to loan-financed public works rooted in the belief that we cannot “afford” such things and that we must therefore practice strict “economy” to “madmen in authority” - “lunatics.” In a 1933 article for the American magazine Redbook, “Can America Spend its way to Recovery?”, he says that “the man who regards all this [loan-financed public works, particularly housing] as a senseless extravagance which will impoverish the nation, as compared with doing nothing and leaving millions unemployed, should be recognized for a lunatic.” In a February 1932 lecture prepared for the series “The World's Economic Crisis and the Way of Escape” organized by the Halley-Stewart Trust, he claims that “the voices which—in such a conjuncture—tell us that the path of escape is to be found in strict economy, and in refraining, wherever possible, from utilising the world's potential production, are the voices of fools and madmen.” (XXI 61)

In the The Daily Mail for 26 April 1933, he describes Chamberlain's recent budget as “true to the Gladstonian ideal of the Chancellor of the Exchequer as a faithful accountant.” (XXI 195) The government is said to have made “strict budgeting ... such a fetish a year ago ... that we all feared that the Chancellor would not feel himself free to obey the dictates of good reasons, unless he could furnish himself not only with good reasons but also with a good excuse.” (XXI 195) A few months later, when the Treasury appeared likely to approach a

conversion loan in a way which would raise interest rates, Keynes once more invoked the notion of a unconscious sense of guilt seeking relief through punishment to explain the policy, this time a policy that chose to fund public debt in a way likely to raise interest rates: "If the Chancellor, weighed down by a sense of guilt, feels that for the sin of borrowing he must chastise himself (and us) by borrowing dear, markets will respond accordingly." (XII 228)

In a 1939 letter to the Editor of the Financial News replying to criticism of the claim that deficit spending would increase employment and output, he claims that: "To discover why you think otherwise requires, I suspect, psycho-, rather than economic analysis." (XXII 84-5)

Particularly scathing critiques are made of the belief that the objects of public spending must always "pay" in money terms. In "National Self-Sufficiency" he writes:

"The nineteenth century carried to extravagant lengths the criterion of what one can call for short the financial results, as a test of the advisability of any course of action sponsored by private or by collective action. The whole conduct of life was made into a sort of parody of an accountant's nightmare. Instead of using their vastly increased material and technical resources to build a wonder-city, they built slums; and they thought it right and advisable to build slums because slums, on the test of private enterprise, 'paid', whereas the wonder-city would, they thought, have been an act of foolish extravagance, which would, in the imbecile idiom of the financial fashion, have 'mortgaged the future'; though how the construction today of great and glorious works can impoverish the future no man can see until his mind is beset by false analogies from an irrelevant accountancy. Even today we spend our time - half vainly, but also, I must admit, half successfully - in trying to persuade our countrymen that the nation as a whole will assuredly be richer if unemployed men and machines are used to build much needed houses than if they are supported in idleness. For the minds of this generation are still so beclouded by bogus calculations that they distrust conclusions which should be obvious, out of a reliance on a system of financial accounting which casts doubts on whether the operation will 'pay'. We have to remain poor because it does not 'pay' to be rich. We have to live in hovels, not because we cannot build palaces, but because we cannot 'afford' them." (XXI 241)

He then (XXI 241-3) goes on to list a number of objects for public expenditure consistent with the values he claims would govern activity in a true social republic where "ends" are preferred to "means" and the "good" to the "useful." These points are reiterated in the passage from the 2 April 1942 article in The Listener, "How Much Does Finance Matter?", quoted above. (XXVII 270)

IV Marx on the ideal social republic

In "My Early Beliefs" Keynes calls Marxism "the final reductio ad absurdum of Benthamism" meaning by Benthamism in this context "an over-valuation of the economic criterion." (X 446) This is a common misinterpretation of Marx's "materialism," of his "economic interpretation of history." In fact, as I will now attempt to show, Marx's conceptions of "political economy," of the "good," of the "true social republic," of the proper relation of the "economic" to "non-economic interests," and of capitalism are very like Keynes's.

Marx conceives “political economy” as a “moral science” in both the senses I have attributed to Keynes. Its ultimate end is the provision to members of the polis of the material means of a “good life.” Properly conceived and managed, the “economic” is instrumental to the end in themselves activities and relations that constitute what Marx calls the “true realm of freedom.” This conception of the relation of the “economic” to “non-economic interests” is elaborated in the following passage from the collection of Marx’s writings that Engels published as vol. III of Capital, a passage dividing the “true social republic” into a “realm of necessity” and a “true realm of freedom.”

"Just as the savage must wrestle with nature to satisfy his needs, to maintain and reproduce his life, so must civilized man, and he must do so in all forms of society and under all possible modes of production. This realm of natural necessity expands with his development, because his needs do too; but the productive forces to satisfy these expand at the same time. Freedom, in this sphere, can only consist in this, that socialized man, the associated producers, govern the human metabolism with nature in a rational way, bringing it under their collective control instead of being dominated by it as a blind power; accomplishing it with the least expenditure of energy and in conditions most worthy and appropriate to their human nature. But this always remains a realm of necessity. The true realm of freedom, the development of human powers as an end in itself, begins beyond it, though it can only flourish with this realm of necessity as its basis. The reduction of the working day is the basic prerequisite."(Marx 1992, p. 959)

IV.1 “The true realm of freedom”

The identification of the “true realm of freedom” with “the development of human powers as an end in itself” having as “the basic prerequisite” “the reduction of the working day” follows from Marx’s conception of the activities and relations that define this realm. As in Keynes, these are the “free activities” of creating and appropriating beauty and truth within relations of mutual recognition, i.e. they are activities filling lives with beauty, truth and love.

Marx makes evident throughout his writings that these are the activities and relations that define “the true realm of freedom.” In the Grundrisse he points to “composing” to illustrate both the content of “really free working” and its character as “the most damned seriousness, the most intense exertion” requiring fully developed capabilities.²⁸ In his elaboration of the essential ethical aspect of these activities as the content of relations of mutual recognition, he points to “being active scientifically” – creating “truth” – as a “fully free activity” which, when practiced fully rationally, has this ethical aspect of being “for society” as an essential aspect of its being “for self” even when it is not “directly communal.”

“Social activity and social enjoyment exist by no means only in the form of some directly communal activity and directly communal enjoyment, although communal activity and communal enjoyment — i.e., activity and enjoyment which are manifested and affirmed in actual direct association with other men — will occur wherever such a direct expression of sociability stems from the true character of the activity’s content and is appropriate to the nature of the enjoyment.

“But also when I am active scientifically, etc. — an activity which I can seldom perform in direct community with others — then my activity is social, because I perform it as a man. Not only is the material of my activity given to me as a social product (as is even the language in which the thinker is active): my own existence is social activity, and therefore that which I make

of myself, I make of myself for society and with the consciousness of myself as a social being.”

The activity of “appropriating” beauty and truth within relations of mutual recognition is also a defining activity of the true realm of freedom. Marx distinguishes this true idea of “appropriation” from the mistaken idea of it as “possessing” or “having.”

“the positive transcendence of private property — i.e., the perceptible appropriation for and by man of the human essence and of human life, of objective man, of human achievements should not be conceived merely in the sense of immediate, one-sided enjoyment, merely in the sense of possessing, of having. Man appropriates his comprehensive essence in a comprehensive manner, that is to say, as a whole man. Each of his human relations to the world — seeing, hearing, smelling, tasting, feeling, thinking, observing, experiencing, wanting, acting, loving — in short, all the organs of his individual being, like those organs which are directly social in their form, are in their objective orientation, or in their orientation to the object, the appropriation of the object, the appropriation of human reality. Their orientation to the object is the manifestation of the human reality, [For this reason it is just as highly varied as the determinations of human essence and activities] it is human activity and human suffering, for suffering, humanly considered, is a kind of self-enjoyment of man. ...

“The supersession of private property is therefore the complete emancipation of all human senses and attributes; but it is this emancipation precisely because these senses and attributes have become human, subjectively as well as objectively. The eye has become a human eye, just as its object has become a social, human object, made by man for man. The senses have therefore become theoreticians in their immediate praxis. They relate to the thing for its own sake, but the thing itself is an objective human relation to itself and to man, and vice versa. [Marx's note: In practice I can only relate myself to a thing in a human way if the thing is related in a human way to man.] Need or employment have therefore lost their egoistic nature, and nature has lost its mere utility in the sense that its use has become human use.

“Similarly, senses and enjoyment of other men have become my own appropriation. Apart from these direct organs, social organs are therefore created in the form of society; for example, activity in direct association with others, etc., has become an organ of my life expressions and a mode of appropriation of human life.” (Marx 1975A, pp. 299-301)

The “artistic” and “scientific” content of the “good life” explains why such a life requires as means “the artistic, scientific etc. development of the individuals.” (Marx 1973, pp. 705-6)

This conception of the “good” as artistic and scientific activity within relations of mutual recognition is embodied in the following description of activity in the “true realm of freedom,” of how we would produce if “we had carried out production as human beings.”

"Let us suppose that we had carried out production as human beings. Each of us would have in two ways affirmed himself and the other person. 1) In my production I would have objectified my individuality, its specific character, and therefore enjoyed not only an individual manifestation of my life during the activity, but also when looking at the object I would have the individual pleasure of knowing my personality to be objective, visible to the senses and hence a power beyond all doubt. 2) In your enjoyment or use of my product I would have the direct enjoyment both of being conscious of having satisfied a human need by my work, that is, of having objectified man's essential nature, and of having thus created an object corresponding to the need of another man's essential nature. 3) I would have been for you the mediator between

you and the species, and therefore would become recognized and felt by you yourself as a completion of your own essential nature and as a necessary part of yourself, and consequently would know myself to be confirmed both in your thought and your love. 4) In the individual expression of my life I would have directly created your expression of your life, and therefore in my individual activity I would have directly confirmed and realized my true nature, my human nature, my communal nature.

"Our products would be so many mirrors in which we saw reflected our essential nature.

"This relationship would moreover be reciprocal; what occurs on my side has also to occur on yours." (Marx 1975B, pp. 227-8)²⁹

IV.2 The relation of the "true realm of freedom" to the "realm of necessity"

As in Keynes, in the "true social republic" the "economic" is instrumental to the fully free "non-economic" activities that define the "true realm of freedom." That "economic" activity in the "realm of necessity" is instrumental means that the time and energy devoted to it must be minimized so as to maximize the time and energy available for the fully free activities that are ends in themselves.

"Freedom, in this sphere, can only consist in this, that socialized man, the associated producers, govern the human metabolism with nature in a rational way, bringing it under their collective control instead of being dominated by it as a blind power; accomplishing it with the least expenditure of energy and in conditions most worthy and appropriate to their human nature."

This relation of production in the realm of necessity to "social requirements" understood as the "requirements of socially developed human beings" is pointed to in the 3rd volume of Capital. The passage also elaborates the meaning of "to each according to their need." Needs in this context mean the needs of "socially developed individuals." This includes "the volume of consumption" which "the full development of individuality requires."

"if wages are reduced to their general basis, namely, to that portion of the product of the producer's own labour which passes over into the individual consumption of the labourer; if we relieve this portion of its capitalist limitations and extend it to that volume of consumption which is permitted, on the one hand, by the existing productivity of society (that is, the social productivity of his own individual labour as actually social), and which, on the other hand, the full development of the individuality requires; if, furthermore, we reduce the surplus-labour and surplus-product to that measure which is required under prevailing conditions of production of society, on the one side to create an insurance and reserve fund, and on the other to constantly expand reproduction to the extent dictated by social needs; finally, if we include in No. 1 the necessary labour, and in No. 2 the surplus-labour, the quantity of labour which must always be performed by the able-bodied in behalf of the immature or incapacitated members of society, i.e., if we strip both wages and surplus-value, both necessary and surplus labour, of their specifically capitalist character, then certainly there remain not these forms, but merely their rudiments, which are common to all social modes of production." (Marx 1992, chap. 50) <http://www.marxists.org/archive/marx/works/1894-c3/ch50.htm>

IV.3 “Universally developed individuals”

As several of these passages indicate, activity in both “the realm of necessity” and the “true realm of freedom” requires fully developed capabilities. The individual possessed of such capabilities is the “universally developed individual.” “Universal” in this context means fully rational so that such capabilities are those of the fully rational individual. The “needs” and “pleasures” of such an individual are also “universal” in this sense i.e. expressive of the universally valid “values” that constitute the content of the “universal will” defined, as in Kant and Hegel, as “a will that places reason at the basis of its actions.”³⁰ Marx identifies the true idea of “wealth” with such “universality.” The essence of human being – what Hegel calls the “idea” of humanity – is the potential to develop this “universality” and realize the full “freedom” – the “free individuality” – it implies.

"What is wealth other than the universality of individual needs, capacities, pleasures, productive forces etc., created through universal exchange? The full development of human mastery over the forces of nature, those of so-called nature as well as of humanity's own nature? The absolute working out of his creative potentialities, with no presupposition other than the previous historic development, which makes this totality of development, i.e. the development of all human powers as such the end in itself, not as measured on a predetermined yardstick? Where he does not reproduce himself in one specificity, but produces his totality? Strives not to remain something he has become, but is in the absolute movement of becoming? In bourgeois economics - and in the epoch of production to which it corresponds - this complete working-out of the human content appears as a complete emptying out, this universal objectification as total alienation, and the tearing-down of all limited, one-sided aims as sacrifice of the human end-in-itself to an entirely external end. " (Marx 1973, p. 488)

He contrasts this idea of “wealth and poverty” with the idea of them in classical political economy.

“It will be seen how in place of the wealth and poverty of political economy come the rich human being and the rich human need. The rich human being is simultaneously the human being in need of a totality of human manifestations of life – the man in whom his own realisation exists as an inner necessity, as need. Not only wealth, but likewise the poverty of man – under the assumption of socialism – receives in equal measure a human and therefore social significance.

“Poverty is the passive bond which causes the human being to experience the need of the greatest wealth – the other human being.” (Marx 1975A, p. 304)

Creating and appropriating beauty and truth require fully developed capabilities in the form of developed “senses” such as a “sense for beauty of form,” “a sense for the finest of plays.” The development of such “senses” itself requires appropriate objects, e.g. “a sense for the finest of plays” requires for its full development experience of the finest of plays. (Marx 1975A, pp. 301-2)

“As soon as consumption emerges from its initial state of natural crudity and immediacy—and, if it remained at that stage, this would be because production itself had been arrested there—it becomes itself mediated as a drive by the object. The need which consumption feels for the object is created by the perception of it. The object of art—like every other product—creates a

public which is sensitive to art and enjoys beauty. Production thus not only creates an object for the subject, but also a subject for the object.” (Marx1973, p. 92)

He claims the need for mutual recognition also develops in this way.

"When communist artisans associate with one another, theory, propaganda, etc., is their first end. But at the same time, as a result of this association, they acquire a new need - the need for society - and what appears as a means becomes an end. In this practical process the most splendid results are to be observed whenever French socialist workers are seen together. Such things as smoking, drinking, eating, etc., are no longer means of contact or means that bring them together. Association, society and conversation, which again has association as its end, are enough for them; the brotherhood of man is no mere phrase with them, but a fact of life, and the nobility of man shines upon us from their work-hardened bodies." (Marx 1975A, p. 313)

The idea of “universally developed individuals” also appropriates Hegel’s idea of “educated men” as those who “can do what others do.” (Hegel 1967, p. 268) Such individuals “determine their knowing, willing, and acting in a universal way.” (Hegel 1967, pp. 124-6) This contradicts the idea of specialized and divided labour as the most productive labour.³¹ This aspect of the “universally developed individual” is implicit in the conception of a “true social republic” as one enabling the individual

"to do one thing today and another tomorrow, to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticize after dinner, just as [she has] in mind, without ever becoming hunter, fisherman, shepherd or critic." (Marx and Engels 1976A, p. 47)

It is explicitly pointed to as an essential characteristic of the “universally developed individual” of the “true social republic” in the following passage from Capital:

“large-scale industry, through its very catastrophes, makes the recognition of variation of labour and hence of the fitness of the worker for the maximum number of different kinds of labour into a question of life and death. This possibility of varying labour must become a general law of social production, and the existing relations must be adapted to permit its realization in practice. That monstrosity, the disposable working population held in reserve, must be replaced by the individual man who is absolutely available for the different kinds of labour required of him; the partially developed individual, who is merely the bearer of one specialized social function, must be replaced by the totally developed individual, for whom the different social functions are different modes of activity he takes up in turn.” (Marx 1976B, pp. 618-9)

Marx also identifies the true idea of “wealth” with “free time” – “free time” for “the enjoyment of the product”, for “free activity” and for the development such enjoyment and activity require.

"Time of labour, even if exchange value is eliminated, always remains the creative substance of wealth and the measure of the cost of its production. But free time, disposable time, is wealth itself, partly for the enjoyment of the product, partly for free activity which - unlike labour - is not determined by a compelling extraneous purpose which must be fulfilled, and the fulfillment of which is regarded as a natural necessity or a social duty, according to one's inclination." (Marx 1971, p. 257)

“As soon as labour in the direct form has ceased to be the great well-spring of wealth, labour time ceases and must cease to be its measure, and hence exchange value [must cease to be the measure] of use value. The surplus labour of the mass has ceased to be the condition for the development of general wealth, just as the non-labour of the few, for the development of the general powers of the human head. With that, production based on exchange value breaks down, and the direct, material production process is stripped of the form of penury and antithesis. The free development of individualities, and hence not the reduction of necessary labour time so as to posit surplus labour, but rather the general reduction of the necessary labour of society to a minimum, which then corresponds to the artistic, scientific etc. development of the individuals in the time set free, and with the means created, for all of them.” (Marx 1973, pp. 705-6)

That time free from instrumental labour is an essential aspect of the true “freedom” made possible by the development of “forces of production” is explicitly claimed in Capital where the idea is associated with Aristotle, “the greatest thinker of antiquity.”³²

“‘If,’ dreamed Aristotle, the greatest thinker of antiquity, ‘if every tool, when summoned, or even of its own accord, could do the work that befits it, just as the creations of Daedalus moved of themselves, or the tripods of Hephaestos went of their own accord to their sacred work, if the weavers' shuttles were to weave of themselves, then there would be no need either of apprentices for the master workers, or of slaves for the lords.’ And Antipatros, a Greek poet of the time of Cicero, hailed the invention of the water-wheel for grinding corn, an invention that is the elementary form of all machinery, as the giver of freedom to female slaves, and the bringer back of the golden age. Oh! those heathens! They understood, as the learned Bastiat, and before him the still wiser MacCulloch have discovered, nothing of Political Economy and Christianity. They did not, for example, comprehend that machinery is the surest means of lengthening the working-day. They perhaps excused the slavery of one on the ground that it was a means to the full development of another. But to preach slavery of the masses, in order that a few crude and half-educated parvenus, might become "eminent spinners," "extensive sausage-makers," and "influential shoe-black dealers," to do this, they lacked the bump of Christianity.” (Marx 1976, pp. 532-3)

“Universal” development is required both for the activities that define the “true realm of freedom” and for those that define the “realm of necessity.” In the latter case, the requirement expresses the fact that created forces of production are “organs of the human brain, created by the human hand; the power of knowledge, objectified” so that they require the universal development of individuals for both their creation and appropriation. Marx explicitly endorses the thesis he associates with Hodgskin and Galiani that

“accumulation is nothing but the amassing of the productive powers of social labour, so that the accumulation of the skill and knowledge (scientific power) of the workers themselves is the chief form of accumulation, and infinitely more important than the accumulation - which goes hand in hand with it and merely represents it - of the existing objective conditions of this accumulated activity. These objective conditions are only nominally accumulated and must be constantly produced anew and consumed anew.” (Marx 1971, pp. 266-7)

He opposes this “idealism” to “the crude, material fetishism into which the Ricardian theory develops in the writings ‘of this incredible cobbler’, McCulloch” and to the mistaken interpretations (e.g. Keynes’s) of his own “materialism.”

"The whole objective world, the 'world of commodities', vanishes here as a mere aspect, as the merely passing activity, constantly performed anew, of socially producing men. Compare this 'idealism' with the crude, material fetishism into which the Ricardian theory develops in the writings 'of this incredible cobbler', McCulloch, where not only the difference between man and animal disappears but even the difference between a living organism and an inanimate object. And then let them say that as against the lofty idealism of bourgeois political economy, the proletarian opposition has been preaching a crude materialism directed exclusively towards the satisfaction of coarse appetites." (Marx 1971, p. 267)

"Nature builds no machines, no locomotives, railways, electric telegraphs, self-acting mules etc. These are products of human industry; natural material transformed into organs of the human will over nature, or of human participation in nature. They are organs of the human brain, created by the human hand; the power of knowledge, objectified. The development of fixed capital indicates to what degree general social knowledge has become a direct force of production, and to what degree, hence, the conditions of the process of social life itself have come under the control of the general intellect and been transformed in accordance with it. To what degree the powers of social production have been produced, not only in the form of knowledge, but also as immediate organs of social practice, of the real life process." (Marx 1973, pp. 705-6)

As with the creation and appropriation of beauty and truth, the creation and appropriation of fully developed forces of production requires fully developed subjects. The end determines the means with “the rigidity of a law.”

“Thus things have now come to such a pass that the individuals must appropriate the existing totality of productive forces, not only to achieve self-activity, but, also, merely to safeguard their very existence. This appropriation is first determined by the object to be appropriated, the productive forces, which have been developed to a totality and which only exist within a universal intercourse. From this aspect alone, therefore, this appropriation must have a universal character corresponding to the productive forces and the intercourse.”

“The appropriation of these forces is itself nothing more than the development of the individual capacities corresponding to the material instruments of production. The appropriation of a totality of instruments of production is, for this very reason, the development of a totality of capacities in the individuals themselves. ...

“Only at this stage does self-activity coincide with material life, which corresponds to the development of individuals into complete individuals and the casting-off of all natural limitations. The transformation of labour into self-activity corresponds to the transformation of the earlier limited intercourse into the intercourse of individuals as such.” (Marx 1947, pp. 66-8)

The result is that labour in the realm of necessity of an ideal community is much more productive and efficient than it is in preceding production arrangements all of which ultimately “fetter” the development of forces of production by fettering the development of individuals. Marx, like Keynes, treats social relations as “internal relations.” The social relations of the true

social republic make possible universal development and this reacts back on the nature of labour and production in the realm of necessity.

"It is self-evident that if time of labour is reduced to a normal length and, furthermore, labour is no longer performed for someone else, but for myself, and, at the same time, the social contradictions between master and men, etc., being abolished, it acquires a quite different, a free character, it becomes real social labour, and finally the basis of disposable time -- the time of labour of a man who has also disposable time, must be of a much higher quality than that of the beast of burden." (Marx 1971, p. 257)

"Labour cannot become play, as Fourier would like, although it remains his great contribution to have expressed the suspension not of distribution, but of the mode of production itself, in a higher form, as the ultimate object. Free time -- which is both idle time and time for higher activity -- has naturally transformed its possessor into a different subject, and he then enters into the direct production process as this different subject. This process is then both discipline, as regards the human being in the process of becoming; and, at the same time, practice [Ausübung], experimental science, materially creative and objectifying science, as regards the human being who has become, in whose head exists the accumulated knowledge of society." (Marx 1973, pp. 711-2)

Because "labour" (a word usually used by Marx to mean the instrumental activity that defines the realm of necessity), like fully free activity in the "true realm of freedom," requires the fully developed capabilities that define "universally developed individuals", it is much more attractive than the "alienated" labour of capitalism. It fully utilizes universal capabilities and is carried on within relations of mutual recognition.

"It seems quite far from Smith's mind that the individual, 'in his normal state of health, strength, activity, skill, facility', also needs a normal portion of work, and of the suspension of tranquility. Certainly, labour obtains its measure from the outside, through the aim to be attained and the obstacles to be overcome in attaining it. But Smith has no inkling whatever that this overcoming of obstacles is in itself a liberating activity - and that, further, the external aims become stripped of the semblance of merely external natural urgencies, and become posited as aims which the individual himself posits - hence as self-realization, objectification of the subject, hence real freedom, whose action is, precisely, labour." (Marx 1973, p. 661)

When universally developed, individuals embrace and actualize the fully rational distribution rule:

"In a higher phase of communist society, after the enslaving subordination of the individual to the division of labor, and therewith also the antithesis between mental and physical labor, has vanished; after labor has become not only a means of life but life's prime want; after the productive forces have also increased with the all-around development of the individual, and all the springs of co-operative wealth flow more abundantly — only then can the narrow horizon of bourgeois right be crossed in its entirety and society inscribe on its banners: From each according to his ability, to each according to his needs!"³³ (Marx 1970B, p. 49)

The alleged conflict between an efficient and an ethical organization of production in the realm of necessity that is a persistent theme of Keynes, is implicitly shown by Marx to be inconsistent with their shared foundational premises.

IV.4 The capitalist “passions”

Marx’s “political economy” is also a “moral science” like Keynes’s in the second sense specified above. It is embedded in an ontology of internal relations. Such relations are conceived (as, among many other texts, the “Theses on Feuerbach” demonstrate) so as to allow for self-determination and final causation as essential aspects of human being. The philosophy of history Marx constructs from these foundational concepts appropriates Hegel’s identification of the “idea” of humanity with “freedom” defined as the potential to realize the forms of “self-determination” and “final causation” expressed by Hegel’s ideas of a “will proper” and a “universal will.” (Hegel 1956, pp. 40-41 and 1986, pp. 1-2) We have examined Marx’s vision of the “true social republic” that would realize “freedom” in this sense.

Like Marshall and Keynes, Marx criticizes classical political economy for treating a particular “estranged” human type – the “capitalist” – as exemplifying human nature per se, for neglecting that the type is specific to the internal relations that define capitalism. (Marx 1973, p. 83) Marx’s philosophy of history, like Hegel’s which it appropriates, treats history as an internally related set of stages ending in the actualization of the true social republic. Capitalism is understood as one of these stages, a stage instrumental to the creation of the conditions – e.g. highly developed “forces of production” – required for the practicability of the ideal. The positive feature of capitalism, according to Marx, is its development of these conditions, a development not only of universal forces of production, but also of universal needs and the means of satisfying them.

Also like Keynes’s, Marx’s treatment of capitalism has irrational motives, what Hegel defined as “passions,” “supply the impelling and actuating force for accomplishing deeds shared in by the community at large.” (Hegel 1956, pp. 23-4) Marx’s conception of the content and functioning of the capitalist “passions” is also very like Keynes’s. It includes both “the love of money as a possession” and “purposiveness.” Keynes himself notes this in one of his few positive references to Marx’s political economy.³⁴

Marx frequently identifies the irrational “love of money as a possession” as an essential capitalist “passion.”

"Money is not just an object of the passion for enrichment, it is the object of it. This urge is essentially auri sacra fames." (Marx 1970A, p. 132)

In Capital, he points approvingly to Aristotle’s distinction of rational “economics” from the irrational accumulation of money for its own sake - “chrematistics.” (Marx 1976A, pp. 253-4, note)

Marx also frequently identifies what Keynes calls “purposiveness” as another essential aspect of the capitalist “passions,” most famously in the following passage:

"Accumulate, accumulate! That is Moses and the prophets! 'Industry furnishes the material which saving accumulates.' Therefore save, save, i.e. reconvert the greatest possible portion of surplus-value or surplus product into capital! Accumulation for the sake of accumulation, production for the sake of production: this was the formula in which classical economics expressed the historical mission of the bourgeoisie in the period of its domination. Not for one instant did it deceive itself over the nature of wealth's birth-pangs. But what use is it to lament a historical necessity? If, in the eyes of classical economics, the proletarian is merely a machine for the production of surplus-value, the capitalist too is merely a machine for the transformation of this surplus-value into surplus capital." (Marx 1976A, p. 742)

Like Keynes, he links these money-motives to a sadistic "love of power". In Capital, he claims that Luther, "taking the usurer, that old-fashioned but ever-renewed specimen of the capitalist, for his text, ... shows very well that the love of power is an element in the desire to get rich (Marx, 1976A, p. 740)."

He also gives these money-loving and money-making "passions" a role in capitalist "crises" very like Keynes's. This is particularly so in the case of what he calls a "monetary crisis."³⁵

"This contradiction bursts forth in that aspect of an industrial and commercial crisis which is known as a monetary crisis. Such a crisis occurs only where the ongoing chain of payments has been fully developed, along with an artificial system for settling them. Whenever there is a general disturbance of the mechanism, no matter what its cause, money suddenly and immediately changes over from its merely nominal shape, money of account, into hard cash. Profane commodities can no longer replace it. The use-value of commodities becomes valueless, and their value vanishes in the face of their own form of value. The bourgeois, drunk with prosperity and arrogantly certain of himself, has just declared that money is a purely imaginary creation. 'Commodities alone are money,' he said. But now the opposite cry resounds over the markets of the world: only money is a commodity. As the hart pants after fresh water, so pants his soul after money, the only wealth. [In a footnote, Marx cites John Bellers 1696 'The poor stand still, because the rich have no money to employ them, though they have the same land and hands to provide victuals and clothes, as ever they had; ... which is the true Riches of a Nation, and not the money.'] In a crisis, the antithesis between commodities and their value-form, money, is raised to the level of an absolute contradiction." (Marx 1976A, p. 236)

Finally, his conception of the development and functioning of the capitalist "passions" embodies the ontological idea of internal relations. For instance, he claims the form they take in early capitalism differs significantly from their form in mature industrial capitalism. The changes are very like the changes to which Keynes points in The Economic Consequences of the Peace, A Treatise on Money, "The Balance of Payments of the United States" and elsewhere.

The love of money as a possession has gone through an historical process of development:

"Our hoarder is a martyr to exchange-value, a holy ascetic seated at the top of a metal column. He cares for wealth only in its social form, and accordingly he hides it away from society. He wants commodities in a form in which they can always circulate and he therefore withdraws

them from circulation. He adores exchange-value and he consequently refrains from exchange. The liquid form of wealth and its petrification, the elixir of life and the philosophers' stone are wildly mixed together like an alchemist's apparitions. His imaginary boundless thirst for enjoyment causes him to renounce all enjoyment. Because he desires to satisfy all social requirements, he scarcely satisfies the most urgent physical wants. While clinging to wealth in its metallic corporeality the hoarder reduces it to a mere chimaera. But the accumulation of money for the sake of money is in fact the barbaric form of production for the sake of production, i.e., the development of the productive powers of social labour beyond the limits of customary requirements. The less advanced is the production of commodities, the more important is hoarding — the first form in which exchange-value assumes an independent existence as money — and it therefore plays an important role among ancient nations, in Asia up to now, and among contemporary agrarian nations, where exchange-value has not yet penetrated all relations of production.” (Marx 1970A, p. 134)

The capitalist’s psychological propensity to save has gone through a similar personal and historical development:

“He [the capitalist] is dominated by the same absolute drive to enrich himself as the miser, except that he does not satisfy it in the illusory form of building up a treasure of gold and silver, but in the creation of capital, which is real production. If the labourer’s overproduction is production for others, the production of the normal capitalist, of the industrial capitalist as he ought to be, is production for the sake of production. It is true that the more his wealth grows, the more he falls behind this ideal, and becomes extravagant, even if only to show off his wealth. But he is always enjoying wealth with a guilty conscience, with frugality and thrift at the back of his mind. In spite of all his prodigality he remains, like the miser, essentially avaricious.” (Marx 1968, pp. 273-4)

In Capital, this development of the individual capitalist is also said to have characterized the historical development of the capitalist “passions”:

“At the historical dawn of capitalist production,—and every capitalist upstart has personally to go through this historical stage—avarice, and desire to get rich, are the ruling passions. But the progress of capitalist production not only creates a world of delights; it lays open, in speculation and the credit system, a thousand sources of sudden enrichment. When a certain stage of development has been reached, a conventional degree of prodigality, which is also an exhibition of wealth, and consequently a source of credit, becomes a business necessity to the "unfortunate" capitalist. Luxury enters into capital's expenses of representation. Moreover, the capitalist gets rich, not like the miser, in proportion to his personal labour and restricted consumption, but at the same rate as he squeezes out the labour-power of others, and enforces on the labourer abstinence from all life's enjoyments. Although, therefore, the prodigality of the capitalist never possesses the bonâ-fide character of the open-handed feudal lord's prodigality, but, on the contrary, has always lurking behind it the most sordid avarice and the most anxious calculation, yet his expenditure grows with his accumulation, without the one necessarily restricting the other. But along with this growth, there is at the same time developed in his breast, a Faustian conflict between the passion for accumulation, and the desire for enjoyment.” (Marx 1976A, p. 741)

IV.5 The “proletariat” versus “the bourgeois and the intelligentsia”

The main difference between Marx and Keynes concerns their conceptions of the process through which capitalism might be transformed into a “true social republic.” Marx’s conception sees the capability for bringing about this transformation developing in the “proletariat” who then proceed to use, as a necessary means, “revolution.” Keynes, in contrast, sees the capability developing in “the bourgeois and the intelligentsia” who then proceed to wisely manage the slow non-revolutionary movement from capitalism to the ideal social republic of the future.

Marx’s conception is based on what he calls “the absolute general law of capitalist accumulation.” (Marx 1976A, p. 798) The operation of this law will, he claims, lead to a condition of “practically complete” “self-estrangement” for those constituting the proletariat, a “self-estrangement” of which they will be self-consciously aware. (Marx 1975C, pp. 36-7) This consciousness will result in revolution and the ensuing “revolutionary praxis” will develop the knowledge, will and power required to build a society from which all barriers to full human development have been removed.

This conception is mistaken. The argument supporting the idea of “the absolute general” law involves, among other errors, the mistaken use of axiomatic reasoning to reach conclusions about the long run in a context where internal relations invalidate such reasoning. Marx, in other words, falls victim here to the Ricardian vice. This is a fortunate error, however, because no reasonable account of the conditions required for the kind of individual development the transformation of capitalism would require would make “practically complete” “self-estrangement” followed by “revolutionary praxis” consistent with, let alone necessary for, such development.

Keynes, in contrast, locates “the seeds of all human advancement” in “the bourgeois and the intelligentsia.” In one of his dismissive remarks about “Marxism,” he asks:

"How can I adopt a creed [Marxism] which, preferring the mud to the fish, exalts the boorish proletariat above the bourgeois and the intelligentsia who, with whatever faults, are the quality in life and surely carry the seeds of all human advancement?" (X 258)

As we have seen, this conclusion is based not on differences with Marx about the conditions consistent with the individual development transformation would require, but on the assumption that most individuals are innately incapable of such development. Keynes claims, in fact, that the constitutional strength in “labour” of “dangerous human proclivities” may make the task of transforming capitalism “impossible.” In “Economic Possibilities for Our Grandchildren,” he provides a Darwinian grounding for these claims.

"we have been expressly evolved by nature - with all our impulses and deepest instincts - for the purpose of solving the economic problem. If the economic problem is solved, mankind will be deprived of its traditional purpose. ... I think with dread of the readjustment of the habits and instincts of the ordinary man, bred into him for countless generations, which he may be asked to discard within a few decades." (IX 327)

In A Treatise on Probability he had anticipated that it might in future be possible to derive "the

various qualities of men from the collisions and arrangements of their chromosomes." (VIII 468) As I have pointed out, he remained a supporter of eugenics to the end of his life.

Though not logically incompatible with the importance the ontological and psychological foundations of Keynes' political economy give to the role of "relations" in individual development, this understanding of the strength of constitutional influences seems more compatible with an "atomist" than an "organic unity" approach to social theory. If an ontology of internal relations is more realistic than an atomist ontology, the relative weight to be assigned to constitutional influences will only be known when investigations of the question cease to be dominated by dogmatic adherence to modeling social theory on physics.

On the other hand, Keynes's underestimated the strength of irrationality independently of whether such strength derives from constitutional or social influences. "The bourgeois and the intelligentsia" have not developed the capabilities required for the role Keynes assigns to them. This is illustrated by the fate of Keynes's own ideas about "political economy." These have proven largely incomprehensible. In particular, they have proven incomprehensible to that part of "the intelligentsia" to which they were explicitly addressed – "economists." Benthamite economics is, if anything, more dominant than it was in Keynes's own lifetime.

In "My Early Beliefs," Keynes himself points to a possible source for his mistake:

"I still suffer incurably from attributing an unreal rationality to other people's feelings and behaviour (and doubtless to my own, too). There is one small but extraordinarily silly manifestation of this absurd idea of what is 'normal', namely the impulse to protest - to write a letter to The Times, call a meeting in the Guildhall, subscribe to some fund when my presuppositions as to what is 'normal' are not fulfilled. I behave as if there really existed some authority or standard to which I can successfully appeal if I shout loud enough - perhaps it is some hereditary vestige of a belief in the efficacy of prayer." (X, p. 448)

I would argue, therefore, that neither Marx nor Keynes provides a rationally persuasive account of a process through which significant progress in the direction of the "ideal social republic of the future" might be achieved. We still lack, as Keynes once said in criticism of Trotsky, "a coherent scheme of progress." "The next move is with the head, and fists must wait." (X 66-7)

Conclusion

I have attempted to demonstrate that the philosophical and psychological foundations of Keynes's conception of macroeconomics and macroeconomic policy make it an aspect of "political economy" understood as a "moral science." Treated in this way it is primarily an instrumental knowledge that, like the instrumental knowledge of "dentists," has its "end," the provision to individual members of the community of the "means" of a "good life," outside itself. A "good life" is a life focused on "non-economic interests," the activities of creating and appropriating beauty and truth within relations of mutual recognition. The "essential characteristic of capitalism" is inconsistent with this end. As treated by Keynes, capitalism is a means through which the ultimate end is realized. Its instrumental purpose is to develop the material abundance actualization of the "true social republic" requires.

“The essential characteristic of capitalism” is not merely inconsistent with a “true social republic”; it expresses significant irrationality understood as psychopathology. I have attempted to show the presence of this conception of the motivation dominant in capitalism in Keynes’s macroeconomics. Its “three fundamental psychological factors” embody significant irrationality understood in this way. Keynes’s treats them as “passions” in a sense that appropriates what he called the “wisdom of Adam Smith,” the idea that the irrationality characteristic of capitalist “purposiveness” can serve as means for the realization of rational ethical ends that are not consciously intended.

I have also attempted to demonstrate that this conception of “political economy” as a “moral science” is very like Marx’s. Marx too understands the “good life” to be a life creating and appropriating beauty and truth within relations of mutual recognition. The “true social republic” is a “true realm of freedom” filled with these activities. As in Keynes, in a “true social republic” the “economic” is instrumental to the “non-economic interests” that define the “true realm of freedom”; it is the “realm of necessity” constituted by the minimized instrumental activities necessary for meeting the needs of life in the realm of freedom. Both kinds of activities have as an essential “need” for their practice fully developed capabilities. This is one of the essential needs an ideal republic must meet. It does this by providing the conditions, including the social relations and the “free time,” such development requires.

For Marx, as for Keynes, capitalism is a necessary stage in the historical process through which the “true social republic” is made practicable and realized. In contrast to Keynes, however, Marx treats the great majority of individuals as having the innate capacity to develop in the required way so that this need can be met by changing the conditions in which individuals develop and live. This is one of the reasons Marx is able to assign to the “proletariat” the role Keynes insists can only be played by the “the bourgeois and the intelligentsia.”

Also like Keynes, Marx treats capitalism as dominated by “passions” that are to a significant degree irrational. These passions are “the love of money as a possession” and what Keynes identifies as “purposiveness.” Marx also ties them to sadism. Like Keynes, he has them changing through time as capitalism moves from the “barbaric” to the “civilized” form of “production for the sake of production.” He also gives them a role in capitalist “crises,” particularly “monetary crises,” similar to the role Keynes gives. Finally, like Keynes, he has appropriated, partly directly and partly indirectly through the appropriations found in Kant³⁶ and Hegel, the “wisdom of Adam Smith.” This makes Irrational “passions” a means for accomplishing ethical progress, for “accomplishing deeds shared in by the community at large.”

The assumption that “the main motive force” of capitalism embodies a significant degree of irrationality underpins Keynes’s understanding of, and policy proposals for mitigating, unemployment. The proposals have as their ultimate end making capitalism work more effectively to create the material abundance the actualization of “New Jerusalem” requires. The proposals take explicit account of this end by, for instance, advocating that public expenditure be based on rational ethical and aesthetic criteria, rather than on the psychopathological criteria that give preference to “gold-mining” and “war” and otherwise require that all public spending projects “pay” in money terms.

The psychological foundations of the framework point, however, to a major obstacle in the way of rational macroeconomic policy. Conventional thinking about theory and policy are themselves significantly influenced, Keynes claims, by the irrationality characteristic of capitalist motivation in general. If anything, he underestimated the difficulties irrationality would put in the way of rational theory and policy. The prophecy that ends the General Theory may yet turn out to be true, but the “insane and irrational springs of wickedness” have proven more difficult to overcome than Keynes himself foresaw.

“if the ideas are correct - an hypothesis on which the author himself must necessarily base what he writes - it would be a mistake, I predict, to dispute their potency over a period of time. ... soon or late, it is ideas, not vested interests, which are dangerous for good or evil.”³⁷ (VII 383-4)³⁸

¹ References to Keynes’s Collected Writings take the form of the volume number followed by the page numbers.

² Aristotle, particularly in the Nicomachean Ethics and the Politics, is a key classical starting point for this conception of “political economy.” The end of both household and political “economy” is the provision to members of the material means of a “good life” understood as a “fulfilled life” – “eudaimonia.” Aristotle’s account of the relation of this to “relations of mutual recognition” (philia), to fully developed “capabilities” (arete), to the distinction between rational “economy” and the irrational accumulation of money for its own sake (chrematistic), etc. is reflected in both Keynes’s and Marx’s treatment of “political economy” as a “moral science.” As we shall see, this connection is frequently explicitly pointed to by Marx who calls Aristotle “the greatest thinker of antiquity.”

³ In the Preface to Essays in Persuasion, Keynes describes as “his central thesis throughout - the profound conviction that the economic problem, as one may call it for short, the problem of want and poverty and the economic struggle between classes and nations, is nothing but a frightful muddle, a transitory and an unnecessary muddle.” (IX xviii)

⁴ Harrod quotes Keynes as describing economists in a 1945 speech as “the trustees, not of civilisation, but of the possibility of civilisation.” (quoted in Harrod 1951, p. 194)

⁵ This claim is another theme of Keynes’s discussion of capitalism, his putting at odds of the ethical and the efficient. The claim is repeated in the General Theory:

“There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition.”

This seems inconsistent with his assumption that economic motivation and decision making in capitalism embody a significant degree of irrationality in the sense of psychopathology. This irrationality shows up not only at the level of macroeconomic functioning; it also significantly affects the functioning of business at the microeconomic level. Production would be carried on more not less “efficiently” if it were carried on with a mentality approximating more nearly to full rationality (a point implicit in Keynes’s account of the business practices of his friend Walter

Case (IX 326-7), a businessman he treats as exemplifying a much higher standard of rationality than is normal in business).

Keynes's view of the relation between efficiency and the ethical ideal differs from Marshall's. In an 1889 article on "Cooperation", Marshall claims that "in the world's history there has been no waste product, so much more important than all others, that it has a right to be called THE Waste Product. It is the higher abilities of many of the working classes; the latent, the undeveloped, the choked-up and wasted faculties for higher work, that for lack of opportunity have come to nothing." (Marshall 1925B, p. 229). In an 1873 article, "The Future of the Working Classes," he says that

"man ought to work in order to live, his life, physical, moral, and mental, should be strengthened and made full by his work. But what if his inner life be almost crushed by his work? Is there not then suggested a terrible truth by the term working man, when applied to the unskilled labourer – a man whose occupation tends in a greater or less degree to make him live for little save for that work that is a burden to bear?" (Marshall 1925A, p. 108)

Influenced, as he himself points out, by German idealism (Kant and Hegel) and "the socialists" (including, I think, though Marshall only very infrequently makes it explicit, Marx), Marshall sets out a vision of "the ideal social republic of the future" very like Marx's, one that makes the "economic" instrumental to meeting the needs of the "activities" that define what, as we shall see, Marx calls the "true realm of freedom" and that also, in contrast to Keynes's, sees the "economic" as being conducted much more productively and efficiently by, among other things, fully developing and utilizing "the higher abilities of many of the working classes." (see Marshall 1925A, pp. 109-118)

A.N. Whitehead makes ontological ideas very like those underpinning Keynes's political economy the basis for a very critical treatment of the conventional "business mind," criticizing not only its ethical ideas but also its inadequacy for dealing with the rational requirements for the efficient conduct of business. (See "The Study of the Past: Its Uses and Dangers" in Whitehead 1933A and chap. VI, "Foresight," in Whitehead 1933B, both of which began as lectures at the Harvard Business School.)

The Kleinian version of psychoanalytic psychology (a version having close ties to Bloomsbury) has been made the basis for investigation of the psychopathological aspects of the functioning of institutions, including business institutions. See, for instance, Menzies Lyth, 1988 and 1989.

As we shall see, one of the main points made by Marx about the "ideal social republic" is that it would be much more "efficient" because it would make possible and make use of the full development of individual capabilities.

⁶ In Keynes's own case there is more continuity between his early and his mature beliefs than "My Early Beliefs" suggests. In his 1904 essay on Burke, he accepts Burke's defense of "customary morals, conventions and conventional wisdom," a defense based on the ground that "the part that reason plays in motive is slight." He stresses Burke's "disbelief in men's acting rightly, except on the rarest occasions because they have judged that it is right so to act." It is "just prejudices" rather than reason that must be the guide of life. Moreover, given the role such prejudices play in defending civilization from barbarism, they have to be defended from critical attack (i.e. in 1904 he sets out "a dictum in which" according to "My Early Beliefs," "we should have been unable to discover any point or significance whatever" X 448). Keynes attributes to Burke the view that, since reason plays such a small role in motivation,

"those who would govern men must consequently, rely upon other aids; they must foster and preserve just prejudices; they must discountenance the exposure even of those prejudices which are based upon misapprehension but are beneficial in their immediate results." (Keynes 1904, p. 82)

⁷ In a speech to the Eugenics Society near the end of his life, Keynes claimed of Francis Galton, the founder of "eugenics," that:

"Galton's eccentric, sceptical, observing, flashing, cavalry-leader type of mind led him to become the founder of the most important, significant and, I would add, genuine branch of sociology which exists, namely eugenics." (Keynes 1946, p. 40)

I owe this reference to Fishburn (1983) as cited in O'Donnell (1989, p. 341).

⁸ Another aspect is the necessary "uncertainty" about the consequences of revolutionary change resulting from the fact that social relations are internal relations.

⁹ Keynes endorses H.G. Wells's claim that these proclivities are present in a less sublimated form in "labour."

"Clissold is expressing a reaction against the socialist party which very many feel, including socialists. The remoulding of the world needs the touch of the creative Brahma. But at present Brahma is serving science and business, not politics or government. The extreme danger of the world is, in Clissold's words, lest, 'before the creative Brahma can get to work, Siva, in others words the passionate destructiveness of labour awakening to its now needless limitations and privations, may make Brahma's task impossible'. We all feel this, I think. We know that we need urgently to create a milieu in which Brahma can get to work before it is too late. Up to a point, therefore, most active and constructive temperaments in every political camp are ready to join the open conspiracy." (IX 319)

¹⁰ The psychology underpinning Keynes's political economy allows for a continuum of irrationality ranging from the psychotic through the neurotic to the "psychopathology of everyday life" and finally to the fully rational. Keynes's own treatment of psychology allows for varying degrees of rationality and irrationality.

¹¹ In the General Theory, this irrational "purposiveness" appears most obviously in motives (iv) and (viii) of the "eight main motives or objects of a subjective character which lead individuals to refrain from spending out of their incomes." Motive (iv) is "to enjoy a gradually increasing expenditure, since it gratifies a common instinct to look forward to a gradually improving standard of life rather than the contrary, even though the capacity for enjoyment may be diminishing." Motive (viii) is "to satisfy pure miserliness, i.e. unreasonable but insistent inhibitions against acts of expenditure as such." (VII 107-8)

¹² This provides a key to understanding Keynes's invocation of "the wisdom of Adam Smith" in that article, "The Balance of Payments of the United States." (XXVII 444-6) For both Keynes and Marx, a key positive aspect of Smith's political economy is the role assigned to irrational "passions" in promoting good ends inconsistent with them.

In the article, Keynes points to foreseeable changes in these “passions” as working to produce equilibrium in the U.S. balance of payments. Specifically, such changes will lead, he claims, to a decreased propensity to save (with an increased propensity to import) and increased upward pressure on wages, both influences tending to reduce the U.S. balance of payments surplus.

The Economic Consequences of the Peace had pointed to the same two developments as making the “psychology of society” characteristic of pre-war Europe significantly different from what would characterize post-war. He says of the pre-war functioning of these “instincts of Puritanism”:

“In the unconscious recesses of its being [19th century] society knew what it was about. The cake was really very small in proportion to the appetites of consumption, and no one, if it were shared all round, would be much the better off by the cutting of it. Society was working not for the small pleasures of today but for the future security and improvement of the race -- in fact for 'progress'. If only the cake were not cut but was allowed to grow in the geometrical proportion predicted by Malthus of population, but not less true of compound interest, perhaps a day might come when there would at last be enough to go round, and when posterity could enter into the enjoyment of our labours. In that day overwork, overcrowding, and underfeeding would come to an end, and men, secure of the comforts and necessities of the body, could proceed to the nobler exercises of their faculties. One geometrical ratio might cancel another, and the nineteenth century was able to forget the fertility of the species in a contemplation of the dizzy virtues of compound interest.” (II 12-3)

Here a good end is portrayed as the consequence of motives that are “passions” in the sense of Hegel and Marx (and of the classical political economy of Adam Smith). Irrational capitalist “passions” are portrayed as a means for creating the material conditions in which a higher form of society becomes possible, in which “men, secure of the comforts and necessities of the body, could proceed to the nobler exercises of their faculties.”

The "permanent truth of great significance" that the 1946 article attributes to "classical teaching," to "the wisdom of Adam Smith," is that "there are in these matters [the balance of payments of the US] deep undercurrents at work, natural forces, one can call them, or even the invisible hand, which are operating towards equilibrium."

The "deep undercurrents" are the “instincts” that find expression in irrational "passions" and whose functioning produces positive social consequences even though these are not consciously intended. For Smith, this is a sign of "the invisible hand" of God's providence.

“The produce of the soil maintains at all times nearly that number of inhabitants which it is capable of maintaining. The rich only select from the heap what is most precious and agreeable. They consume little more than the poor, and in spite of their natural selfishness and rapacity, though they mean only their own conveniency, though the sole end which they propose from the labours of all the thousands whom they employ, be the gratification of their own vain and insatiable desires, they divide with the poor the produce of all their improvements. They are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species. When Providence divided the earth among a few lordly masters, it neither forgot nor abandoned those who seemed to have been left out in the

partition. These last too enjoy their share of all that it produces. In what constitutes the real happiness of human life, they are in no respect inferior to those who would seem so much above them. In ease of body and peace of mind, all the different ranks of life are nearly upon a level, and the beggar, who suns himself by the side of the highway, possesses that security which kings are fighting for." (Smith 1969, pp. 304-5)

Keynes claims the consequence of the "deep undercurrents" at work in the US economy is that:

"The United States is becoming a high-living, high-cost country beyond any previous experience. Unless their internal, as well as their external, economic life is to become paralysed by the Midas touch, they will discover ways of life which, compared to the ways of the less fortunate regions of the world, must tend towards, and not away from, external equilibrium." (XXVII 444)

This finds in the U.S. the same historical development of the capitalist "passions" that The Economic Consequences of the Peace had claimed would distinguish post-war from pre-war Europe. Keynes sought there

"to point out that the principle of accumulation based on inequality was a vital part of the pre-war order of society and of progress as we then understood it, and to emphasise that this principle depended on unstable psychological conditions, which it may be impossible to re-create. It was not natural for a population, of whom so few enjoyed the comforts of life, to accumulate so hugely. The war has disclosed the possibility of consumption to all and the vanity of abstinence to many. Thus the bluff is discovered; the labouring classes may be no longer willing to forgo so largely, and the capitalist classes, no longer confident of the future, may seek to enjoy more fully their liberties of consumption so long as they last, and thus precipitate the hour of their confiscation." (II 13)

As we have seen, The Economic Consequences of the Peace explicitly portrays the 19th century propensity to save as an expression of "the instincts of puritanism" hidden in "the unconscious recesses of its [society's] being." These, however, are "unstable psychological conditions"; they are "not natural." Hence, as Keynes reiterates in the 1946 article, there are "deep undercurrents," "natural forces," tending to create a high-living, high-cost economy.

This interpretation of the reference to the "wisdom of Adam Smith" is confirmed by the mention of the possibility of the U.S. external and internal economy becoming "paralysed by the Midas touch." This points to the operation the "deep undercurrent" we are about to consider in connection with "the psychological attitude to liquidity," the irrational "instinctive or conventional" "feeling about money" that "operates, so to speak, at a deeper level of our motivation" and can lead to irrational gold hoarding by central banks and domestic interest rates much above those required for full employment.

It is also confirmed by the linked (the irrational instinctive "feeling about money" takes charge when the irrational "conventional" basis of expectations breaks down and irrational fear of the future re-emerges) warning at the end of the essay against irrational fear of the future.

"No one can be certain of anything in this age of flux and change. Decaying standards of life at a time when our command over the production of material satisfactions is the greatest ever, and a diminishing scope for individual decision and choice at a time when more than before we

should be able to afford these satisfactions, are sufficient to indicate an underlying contradiction in every department of our economy. No plans will work for certain in such an epoch. But if they palpably fail, then, of course, we and everyone else will try something different.

"Meanwhile for us the best policy is to act on the optimistic hypothesis until it has been proved wrong. We shall do well not to fear the future too much. Preserving all due caution in our own activities, the job for us is to get through the next five years in conditions which are favourable and not unfavourable to the restoration of our full productive efficiency and strength of purpose, of our prestige with others and of our confidence in ourselves. We shall run more risk of jeopardising the future if we are influenced by indefinite fears based on trying to look ahead further than any one can." (XXVII 445-6)

As we shall also see, according to Keynes "conventional" forecasting practices involve "trying to look ahead further than any one can" and in this way avoid through denial the "indefinite fears" irrationally provoked by consciousness of "uncertainty." When these "higher, more precarious conventions" break down, the "feeling about money," "the Midas touch," "takes charge."

¹³ As with his treatment of the psychology of saving, Keynes's treatment of the psychology of liquidity-preference illustrates the role the hypothesis of "organic unity" – of "internal relations" – plays in his political economy. He claims that "the conception of what contributes to 'liquidity' is a partly vague one, changing from time to time and depending on social practices and institutions." (VII 240) In illustration, he claims (VII 241) that at one time the high liquidity premium now attaching to money was attached to land. He says of liquidity-preference in India that "the history of India at all times has provided an example of a country impoverished by a preference for liquidity amounting to so strong a passion that even an enormous and chronic influx of the precious metals has been insufficient to bring down the rate of interest to a level which was compatible with the growth of real wealth." (VII 337) In the section of the Treatise on Money making positive reference to "the Freudian theory of the love of money, and of gold in particular" the development of "auri sacra fames" is portrayed as lending itself to interpretation as the development of a "furtive Freudian cloak." (VI 259)

¹⁴ "The concept of Hoarding may be regarded as a first approximation to the concept of Liquidity-preference. Indeed if we were to substitute "propensity to hoard" for "hoarding", it would come to substantially the same thing." (VII 174)

¹⁵ In his evidence before The Committee on National Debt and Taxation on 6 May 1925 (XIX Part 2 839-55), he explicitly identifies these "deep instincts" with "very strong irrational feelings." He also implicitly uses "psychological" to mean "irrational." "In so far as its [the capital levy's] results would be worse than those of any other new tax, I think that the ill consequences would be due to psychological rather than to economic or technical causes." (XIX, Part 2 p. 841) "The capital levy is extraordinarily disturbing in proportion to its magnitude - far more so than any other tax. You are insulting, by it, a set of very strong irrational feelings in men." (XIX Part 2 852)

¹⁶ "It is not easy, it seems, for men to apprehend that their money is a mere intermediary, without significance in itself, which flows from one hand to another, is received and is dispensed, and disappears when its work is done from the sum of a nation's wealth." (IV, p.

124) I have provided an elaboration of the relation between “uncertainty” and the “conventional or instinctive” “feeling about money” in (Winslow 1995).

¹⁷ I provide a detailed elaboration of the relation of this psychology to Keynes’s treatment of the trade cycle in (Winslow 1992).

¹⁸ Hayek’s criticism of the public “planning” entailed in Keynes’s macroeconomic policy proposals fails, as Keynes reply to him indicates, to engage with the foundational premises from which the proposals derive, premises very different from Hayek’s.

In Keynes and Marx, the nature of the public sphere is internally related to its social context. Their “moral science” approach embodies a developmental view of human nature, treats the degree of rationality achieved by individuals as the outcome of development, and associates rationality with aesthetic and ethical as well as intellectual capabilities. Marx’s ideal republic, for instance, is a community requiring, as an essential ethical and developmental condition, complete freedom from coercion – “an association, in which the free development of each is the condition for the free development of all.” This is an essential feature of “relations of mutual recognition.” “Planning” in such a context is an entirely voluntary means through which “freely associated producers” operating “in conditions most worthy and appropriate to their human nature” make a “good life” possible for all.

Though Keynes takes a very different view of the potential of most people to develop such capabilities, he also allows “planning” to take different forms in different social contexts depending on the degree of intellectual and ethical development attained in them.

“I should therefore conclude your theme [Hayek’s in The Road to Serfdom] rather differently. I should say that what we want is not no planning, or even less planning. I should say that we almost certainly want more. But the planning should take place in a community in which, as many people as possible, both leaders and followers, share your own moral position. Moderate planning will be safe if those carrying it out are rightly orientated in their own minds and hearts to your own moral position. ... Dangerous acts can be done rightly which would be the way to hell if they were executed by those who think and feel wrongly.” (Letter to F.A. Hayek, 28 June 1944 in XXVII 385-8)

Given what Keynes says of Hayek’s psychology in the other passages I’ve quoted, I doubt he actually believed that Hayek’s “moral position” was consistent with the kind of “planning” he had in mind.

¹⁹ In a 20 May 1943 memo, “The Long-Term Problem of Unemployment,” he looks forward to a third post-war policy phase “when investment demand is so far saturated that it cannot be brought up to the indicated level of savings without embarking upon wasteful and unnecessary enterprises.” (XXVII 322) It will then become “necessary to encourage wise consumption and discourage saving, - and to absorb some part of the unwanted surplus by increased leisure, more holidays (which are a wonderfully good way of getting rid of money) and shorter hours.” (XXVII 323)

He reiterates this in a 5 April 1945 letter to T.S. Eliot:

"the full employment policy by means of investment is only one particular application of an intellectual theorem. You can produce the result just as well by consuming more or working less.

Personally I regard the investment policy as first aid. In U.S. it almost certainly will not do the trick. Less work is the ultimate solution (a 35 hour week in U.S. would do the trick now)." (XXVII 384)

"Economic Possibilities for Our Grandchildren" sees the strength of "the old Adam in most of us" continuing to require more work time than is rationally required. He estimates, however, that a fifteen-hour work week will suffice:

"A three-hour shifts or a fifteen-hour week may put off the problem for a great while. For three hours a day is quite enough to satisfy the old Adam in most of us!" (IX 329)

The "problem" (addressed in the immediately preceding pages) is that, according to Keynes, the strength of constitutional factors also prevents most people from developing the capabilities required to use the free time "to live wisely and agreeably and well." (IX 326-9)

²⁰ I have elaborated the reasons for this at length elsewhere (Winslow 1989, 1993 and 2003).

²¹ Whitehead makes a criticism of science's sole reliance on the "axiomatic approach" very similar to the criticism Keynes makes in the footnote reference to Planck quoted below. He does this in his 1937 Harvard lectures on philosophy as recorded in James Tobin's lecture notes (Tobin 1937).

"Misuse of elaborate edifices based on narrow premises & data has misled mankind very much. Use of that is scientific method - only way we can advance, we can't know everything at once. It is dogmatic use of data & premises which is misuse. Full consideration of data requires knowledge of rest of world - omission can be fatal. Part of phil. is development of arguments based on selected data. When you are reducing dialectic to a minimum & trying to survey experience which enters conscious human exp., that is another part of phil. Hence in these lectures, the side of deduction subordinated to aim of adequacy to the data." (Lecture 31 4/27/37 p. 227)

This parallels the distinction between "formal logic" and "human logic" made by Ramsey and endorsed by Keynes in his biographical essay on Ramsey (X 338-9). The distinction and its ontological basis are spelled out in Whitehead's Modes of Thought discussion of the limitations of deductive reasoning just cited. Whitehead provides a "pragmatic" account of "human logic" as "direct intuitive observation" alternative to Ramsey's (see Winslow 2003).

²² This, I would argue, is the point of the reference to non-Euclidean geometry in the General Theory. Geometry might be thought to be a subject in which treating axioms as fixed and true independent of context does not lead to error. As the development of non-Euclidean geometries showed, however, this isn't true.

The use of non-Euclidean geometry to illustrate the point is likely an implicit reference to Whitehead (rather than, as James K. Galbraith (1994) argues, to Einstein). Whitehead repeatedly used the case of geometry to illustrate the limitation that internal relations place on deductive reasoning from fixed axioms. He is recorded as doing this, for instance, in the notes James Tobin took in Whitehead's 1937 Harvard philosophy lectures.

“Phil. has task of surveying map of human attitudes, survey their abstractions & find any general principles which reign thru entire gamut of human experience. Finite human intellect can only get modified metaphysical generality. Here comes the intelligent view of history of thought. Geometry seems to have started with Egyptians - everybody had presupposed spatial relations. As soon as attention is drawn to it, it seemed to be always there. More accurate examination of what is already there is knowledge. Then Egyptians & Greeks generalized - there are spatial relations which control whole world. 2500 years needed to show Euclid only a special case. A good general average to explain most details, but not a necessity of universe, limits to applicability. That is true in regard to all generalizations. Those limits are hidden, but not necessarily hidden. There are always people who say there are things we can never know - they said it about geometry. But flashes of intellectual insight took us away from human geometry. About 1750 plain man could point to universal dominance of Euclidean geometry, merely worrying whether 1 axiom was independently true or whether could be proved from others. But a Jesuit _____ found alternative geometries in presupposing axioms not true. But dominance of plain man made that result foolish - there could be nothing besides Euclidean geometry, therefore it proved that axioms could not be false. Thus he just missed immortality. Later thinkers rediscovered what he had almost conceived. How necessary to human progress an intellectual discipline seeking broadest generality is! That is business & interest of philosophy - seeing specialty of current beliefs & attitudes & conceiving alternatives.” (Lecture 5 2/18/37 pp. 25-6)

Keynes attended Whitehead's Cambridge lectures on non-Euclidean geometry in 1904.

“In the Easter term he [Keynes] went three times a week to A.N. Whitehead's lectures on ‘Non Euclidian Geometry’. He was the only member of the audience. According to his father, Maynard said ‘the lectures are interesting, but they will pay little if at all for the Tripos’. Later Whitehead would mention Maynard and Bertrand Russell as being among his best pupils.” (Moggridge 1992, p. 72)

²³ "Professor Planck, of Berlin, the famous originator of the Quantum Theory, once remarked to me that in early life he had thought of studying economics, but had found it too difficult! Professor Planck could easily master the whole corpus of mathematical economics in a few days. He did not mean that! But the amalgam of logic and intuition and the wide knowledge of the facts, most of which are not precise, which is required for economic interpretation in its highest form is, quite truly, overwhelmingly difficult for those whose gift mainly consists in the power to imagine and pursue to their furthest points the implications and prior conditions of comparatively simple facts which are known with a high degree of precision." (X 186)

²⁴ This refers to the content of the immediately preceding passage.

“If we mean by ‘hoarding’ the holding of idle balances, then my theory of the rate of interest might be expressed by saying that the rate of interest serves to equate the demand and supply of hoards – i.e. it must be sufficiently high to offset an increased propensity to hoard relatively to the supply of idle balances available. The function of the rate of interest is to modify the money prices of other capital assets in such a way as to equalise the attraction of holding them and of holding cash. This has nothing whatever to do with current saving or new investment. There can never be available for additional hoards a surplus of current saving over and above

what is represented by current investment; and this is just as true if, like Mr Hawtrey, we exclude changes in working capital from our definition of investment, since in this case current savings are all absorbed by current investment plus the increase in working capital. Moreover, no amount of anxiety by the public to increase their hoards can affect the willingness of the banks to acquire (or dispose of) additional assets beyond what is required to offset changes in the active balances. If the banks stand firm, an increased propensity to hoard raises the rate of interest, and thereby lowers the prices of capital assets other than cash, until people give up the idea of selling them or of refraining from buying them in order to increase their hoards. The rate of interest is, if you like, the price of hoards in the sense that it measures the pecuniary sacrifice which the holder of a hoard thinks it worth while to suffer in preferring it to other claims and assets having an equal present value.” (XIV 213-4)

²⁵ A Freudian explanation of this “deep seated obsession” is provided in one of papers on “the Freudian theory of the love of money” listed by Keynes in his footnote reference to the theory in The Treatise on Money, Sandor Ferenczi’s “The Ontogenesis of Interest in Money.”

“Observation of the behaviour of children and analytic investigation of neurotics ... shews that children originally devote their interest without any inhibition to the process of defaecation, and that it affords them pleasure to hold back their stools. The excrementa thus held back are really the first 'savings' of the growing being, and as such remain in a constant, unconscious inter-relationship with every bodily activity or mental striving that has anything to do with collecting, hoarding, and saving.” (Ferenczi 1956, pp. 270-1)

²⁶ The use made of Tolstoy here explains the meaning of what in the twenties Keynes referred to as the “Tolstoy problem” in the way of bringing about social change in the direction of the ideal republic. A central issue with which he was concerned was what to do about what he called the “Tolstoy problem” by which he meant the tenaciousness of irrationality in human affairs (see O'Donnell 1992).

²⁷ He repeats this elsewhere (XIII 349).

²⁸ “He [Adam Smith] is right, of course, that, in its historic forms as slave-labour, serf-labour, and wage-labour, labour always appears as repulsive, always as external forced labour; and not-labour, by contrast, as 'freedom, and happiness'. This holds doubly: for this contradictory labour; and, relatedly, for labour which has not yet created the subjective and objective conditions for itself (or also, in contrast to the pastoral etc. state, which it has lost), in which labour becomes attractive work, the individual's self-realization, which in no way means that it becomes mere fun, mere amusement, as Fourier, with grisette-like naiveté, conceives it. Really free working, e.g. composing, is at the same time precisely the most damned seriousness, the most intense exertion. The work of material production can achieve this character only (1) when its social character is posited, (2) when it is of a scientific and at the same time general character, not merely human exertion as a specifically harnessed natural force, but exertion as subject, which appears in the production process not in a merely natural, spontaneous form, but as an activity regulating all the forces of nature. ” (Marx 1973, p. 611)

²⁹ This is repeated in the Economic and Philosophic Manuscripts with the addition that both the “material” and the “subjective” requirements for this ideally “good” activity require for their

existence a process of historical development through “necessary” (in the sense of “internally related”) stages, one of which is “private property.” The claim that “the social character is the general character of the whole movement” is both an ontological claim that relations are “internal relations” and an ethical claim that fully free activity is “social activity and social enjoyment.” “Social man” is elaborated as the “universally developed individual” with the capabilities required for this activity. Such individuals have, through their fully free activity, humanized “nature,” i.e. constituted it in the form required by such truly “human” activity.

“We have seen how on the assumption of positively annulled private property man produces man-himself and the other man; how the object, being the direct manifestation of his individuality, is simultaneously his own existence for the other man, the existence of the other man, and that existence for him. Likewise, however, both the material of labour and man as the subject, are the point of departure as well as the result of the movement (and precisely in this fact, that they must constitute the point of departure, lies the historical necessity of private property). Thus the social character is the general character of the whole movement: just as society itself produces man as man, so is society produced by him. Activity and enjoyment, both in their content and in their mode of existence, are social: social activity and social enjoyment. The human aspect of nature exists only for social man; for only then does nature exist for him as a bond with man — as his existence for the other and the other’s existence for him — and as the life-element of human reality. Only then does nature exist as the foundation of his own human existence. Only here has what is to him his natural existence become his human existence, and nature become man for him. Thus society is the complete unity of man with nature — the true resurrection of nature — the consistent naturalism of man and the consistent humanism of nature.”

³⁰ "By right we ought only to describe as art, production through freedom, i.e. through a will that places reason at the basis of its actions. For although we like to call the product of bees (regularly built cells of wax) a work of art, this is only by way of analogy; as soon as we feel that this work of theirs is based on no proper rational deliberation, we say that it is a product of nature (of instinct)." (Kant 1961, pp. 145-6)

³¹ Hegel on the “educated man” is cited by Marx in Capital to show Hegel's (and his own) " very heretical views" on the specialization and division of labor. (Marx 1976A, p. 485)

³² A.N. Whitehead insightfully identifies the “economic interpretation of history” with this idea of the relation of “freedom” to the development of “forces of production,” the essence of “freedom” being, he claims, “practicability of purpose.” (Whitehead 1933B, p.66)

³³ As a passage quoted earlier indicates, “from each according to his ability” includes wholly voluntary participation in the “realm of necessity.” Fulfillment of the requirement for such “labour” is “regarded as a natural necessity or a social duty, according to one's inclination.”

³⁴ “The distinction between a co-operative economy and an entrepreneur economy bears some relation to a pregnant observation made by Karl Marx,—though the subsequent use to which he put this observation was highly illogical. He pointed out that the nature of production in the actual world is not, as economists seem often to suppose, a case of C-M-C', i.e. of exchanging commodity (or effort) for money in order to obtain another commodity (or effort). That may

be the standpoint of the private consumer. But it is not the attitude of business, which is a case of M-C-M', i.e. of parting with money for commodity (or effort) in order to obtain more money." XXIX 81

Keynes was not able to read Marx with the "good will" he requested from his own readers. His comments are usually contemptuously dismissive.

"How can I accept a doctrine [Marxism] which sets up as its bible, above and beyond criticism, an obsolete economic textbook which I know to be not only scientifically erroneous but without interest or application for the modern world?" (IX 258)

See also the letter to Shaw in (XXVIII 38).

³⁵ One importance difference is that what Keynes called the "instinctive or conventional" "feeling about money" works directly to reduce effective demand in Marx's account whereas it works indirectly through its effect on interest rates in Keynes's account.

³⁶ See the Fourth Thesis of Kant's "Idea for a Universal History from a Cosmopolitan Point of View": "the means employed by nature to bring about the development of all the capacities of men is their antagonism in society." Kant makes "the insatiable desire to possess and to rule" a "passion" serving to bring about this development. (Kant 2001, pp. 15-6)

³⁷ The prophecy implicitly repeats Keynes's mistaken interpretation of Marx's "materialism."

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