KEYNES ON PARADIGM CHANGE

John Maynard Keynes wrote about paradigm change long before Thomas Kuhn's *The Structure of Scientific Revolutions*. In a 1926 essay, *The End of Laissez-Faire* Keynes discusses the lingering doctrines of Laissez-Faire economics well into the period economists were for the most part persuaded by the examples of Alfred Marshall, and the proponents of the marginal utility school that the main ideas of laissez-faire were wrong. Keynes was a brilliant writer, witty and insightful, but he was also a fine scholar. This isn't a long essay, and it is certainly worth reading, for the giraffe analysis if nothing else. I am going to pick out a few points that show why Keynes thought old and strange ideas cannot be rooted out of economics. Here's the laissez-faire he is talking about:

> Finally, in the works of Bastiat we reach the most extravagant and rhapsodical expression of the political economist's religion. In his Harmonies Économiques, [he writes]
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> > I undertake [he says] to demonstrate the Harmony of those laws of Providence which govern human society. What makes these laws harmonious and not discordant is, that all principles, all motives, all springs of action, all interests, co-operate towards a grand final result … And that result is, the indefinite approximation of all classes towards a level, which is always rising; in other words, the equalisation of individuals in the general amelioration.

That sure sounds like any Republican or corporatist Democrat, any TV economist or any person who plays economist on TV, and it's just a shade riper than the average commenter on an article in which Bernie Sanders is identified as a Social Democrat.

Keynes identifies several social and political issues which led to this florid statement. There was struggle against monarchy, which led Locke and others to fetishize private property and the freedom to do as one will with that property. There was a philosophical basis in the Social Contract ideas and the theories of the Utilitarians. There was Darwin and his scientific colleagues who seemed to argue for the necessity of competition for evolution. There was the "corruption and incompetence of eighteenth-century government", coupled with the successes of the early industrialists. There was the support of the economists of that time, a new group, but once seemingly versed in science, saying that government interference with private property would be bad.

He explains that although economists of the day generally supported laissez-faire, it wasn't they who preached the gospel as laid out by Bastiat. Instead, it was the "popularisers and the vulgarisers", who pushed the doctrine into the public mind, and it was the philosophers, not the economists, whose views it fit best. He quotes the popularisers, including the fabulous Mrs. Marcet, and I can't resist:

> CAROLINE. The more I learn upon this subject, the more I feel convinced that the interests of nations, as well as those of individuals, so far from being opposed to each other, are in the most perfect unison.
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> MRS B. Liberal and enlarged views will always lead to similar conclusions, and teach us to cherish sentiments of universal benevolence towards each other; hence the superiority of science over mere practical knowledge.

The economists turned away from this stuff immediately, Keynes says, treating it as a useful idea but hardly one with evidentiary or theoretical support. But the idea remains fixed in the public mind. To be clear, Keynes agrees that government should be limited, but he firmly believes that limits on the use of private property of various kinds and a sensible government are both crucial to controlling the practice of capitalism. The idea that the government could do nothing useful, which underlies laissez-faire as taught by the likes of Mrs. Marcet, is foreign to Keynes, as he shows in Part IV of the essay.

In Part III, Keynes dismantles this analysis. Here's a taste:

> This assumption, however, of conditions where unhindered natural selection leads to progress, is only one of the two provisional assumptions which, taken as literal truth, have become the twin buttresses of laissez-faire. The other one is the efficacy, and indeed the necessity, of the opportunity for unlimited private money-making as an incentive to maximum effort. Profit accrues, under laissez-faire, to the individual who, whether by skill or good fortune, is found with his productive resources in the right place at the right time. A system which allows the skilful or fortunate individual to reap the whole fruits of this conjuncture evidently offers an immense incentive to the practice of the art of being in the right place at the right time. Thus one of the most powerful of human motives, namely the love of money, is harnessed to the task of distributing economic resources in the way best calculated to increase wealth.

Shades of Thomas Piketty. Keynes' primary target is professors of economics who teach the the simplest and most reductive assumptions as the

norm, with all of the messy complications of reality excised. “They regard the simplified hypothesis as health, and the further complications as disease.” He says that the alternatives, Marxian socialism and protectionism, are terrible themselves. Third, there’s this:

> Finally, individualism and laissez-faire could not, in spite of their deep roots in the political and moral philosophies of the late eighteenth and early nineteenth centuries, have secured their lasting hold over the conduct of public affairs, if it had not been for their conformity with the needs and wishes of the business world of the day.

And in conclusion to that analysis, he writes in Part IV:

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

Keynes believed that a capitalist economy could be made to work better through government actions as the situation demanded. “Our problem is to work out a social organization which shall be as efficient as possible without offending our notions of a satisfactory way of life.” I would have written that we should have a satisfactory way of life, made as efficient as possible, but maybe that’s what Keynes meant.

Given these forces, it’s hard to see the basis for Keynes’ hope that the principles of laissez-faire might be eradicated, and, of course, they weren’t. They govern the economic thinking of the Republicans and the corporatist Democrats even today, as the vote on the TPP indicates. They are people who ignorantly repeat the tropes of laissez-faire without reading their original proponents: “… we should consider their arguments preposterous if they were to fall into our hands.“

That’s certainly true, more so today than ever. It points to the central reason why stupid economic ideas cannot be vanquished:

> To suggest social action for the public good to the City of London is like discussing the Origin of Species with a bishop sixty years ago. The first reaction is not intellectual, but moral. An orthodoxy is in question, and the more persuasive the arguments the graver the offence.