

BOOK REVIEW

*Keynes Against Capitalism: His Economic Case For  
Liberal Socialism*, by James R. Crotty

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The global financial crisis and the ensuing recession in many countries ended a period starting with the fall of the Soviet Union in 1989 in which laissez-faire capitalism was seen as the only game in town. Since 2008, discussions of the role of the state vs. the market, of socialism, and of inequality and power have become much more common in both academic and public discourse.

The platforms of progressive political parties in several advanced economies now question capitalism's legitimacy. Some leading politicians no longer describe themselves as Social Democrats, as was the case after World War II, but rather as Democratic Socialists (e.g. Bernie Sanders in the U.S. and Jeremy Corbyn in the U.K.). This label contrasts sharply with the 'third way' of the left in the 1990s—exemplified by Bill Clinton, Tony Blair and Gerhard Schröder—which sought to combine market-friendly policies with post-market distribution. It also contrasts with state socialism or communism of the Soviet or Chinese types.

Common wisdom identifies the ideas of John Maynard Keynes—both in theory and policy—with either social democracy or, in its mainstream version (“bastard Keynesianism,” to use Joan Robinson's term [Foley 2014]) with the “third way” or progressive liberalism. James Crotty's new book *Keynes Against Capitalism* (2019) begs to differ. Using a painstaking analysis of Keynes's own writings from the 1920s to his death in 1946, Crotty argues that Keynes belongs in the same category as Sanders and Corbyn, a position described by Keynes as “liberal socialism.”

In a 1939 interview with *The New Statesman and Nation*, Keynes defined liberal socialism as “a system where we can act as an organized community for common purposes and to promote economic and social justice, while respecting and protecting the individual – his freedom of choice, his faith, his mind and its expression, his enterprise and his property” (quoted in Crotty 2019: 2).

Given today’s political situation in the U.S., the U.K. and elsewhere, where parties and candidates of the left struggle to redefine their message in the wake of Trump and Brexit, it is timely to ask whether progressives seek to save capitalism (from itself, from the rentiers, from high finance) or to replace it with a democratic or liberal form of socialism. One could even argue that it is a struggle for the very soul of the Left.

Crotty, Emeritus Professor of Economics at the University of Massachusetts at Amherst and senior research associate at the Political Economy Research Institute, has long worked on reconciling elements of Marx and Keynes in both theory and policy. Part of that undertaking has involved challenging the notion that Keynes wanted simply to “save capitalism.” As Crotty has noted, Keynes blamed laissez-faire capitalism for both the political and economic turbulence of his time and sought to replace it with state control (via public and semi-public institutions) of up to three-quarters of total investment, political control of and limitation of trade relations, and elimination of free capital movement across borders (Crotty 1983). Elsewhere, Crotty considered Keynes as a *corporatist*, that is, someone who applauded the trend of increasing corporate concentration in the capitalist system and sought to promote public and semi-public corporations as the ideal form of organization (Crotty 1999).

The new book’s contribution is both in scope and in boldness: nearly 400 pages of painstaking analysis of large swathes of Keynes’ collected works, in three parts. Part I surveys Keynes’ writing from *The Economic Consequences of the Peace* in 1919 to *The General Theory* in 1936. During this time, Keynes emphasized public investment, state planning, and industrial policy. He also made a prominent contribution to *Britain’s Industrial Future*—the Liberal Party’s platform for 1928, commissioned and financed by Lloyd George—where Keynes proposed that a Board of National Investment would regulate public investment in physical capital to ensure full employment.

Part II analyzes *The General Theory* not as a purely theoretical book, as it is usually seen, but also as Keynes’ ultimate defense of his radical political agenda, including reducing unemployment, combating secular stagnation as well as deflation, and reining in “insane” financial markets. By directly organizing capital investment and driving both the marginal efficiency of capital and the interest rate to zero, Keynes hoped for the elimination of rentiers’ role in society, leading to “the euthanasia of the cumulative oppressive power of the

capitalist” (Keynes 2018 [1936], Ch. 24).<sup>1</sup> Among the tools advocated by Keynes to achieve this transformation were the abandonment of the gold standard, strict capital controls, nationalizing the Bank of England, and managed rather than free trade.

Going beyond his previous view of Keynes as a corporatist, Crotty reminds us that in its 1932 draft, the title for the last chapter in the *General Theory* was ‘Socialism’ (as noted previously by O’Donnell [1999]). Keynes had in mind a rather utopian “New Jerusalem,” where public investment creates not only full employment, but also improved infrastructure, cultural and educational facilities, transport, and industry.

Part III delves into Keynes’ work after the *General Theory*, through his roles in government agencies and as a key figure in postwar economic planning. In the leadup to World War II, Keynes distinguished between two kinds of private property one that a person earns with their own labor vs. another that constitutes monopoly ownership of giant corporations such as that of Rockefeller, affecting the lives of thousands of workers. He decried the confusion between these two types of private property, arguing that the former is inseparable from the idea of liberty, while the latter is “one of the great enemies of liberty.” Most interestingly, he said of personal property that “no intelligent Socialist has ever wished to take [it] from anyone” (Crotty 2019: 322).

From 1940 until his death, Keynes was even more active in government-related roles, both in Britain and internationally. Nonetheless, he continued to expound his theoretical and policy views. Specifically, he elaborated on his vision for the role of the State, going far beyond what mainstream interpretations of his ideas maintain. Rather than passively responding to recessions by increasing spending and cutting taxes, Keynes envisioned the government actively supporting innovation, investment and entrepreneurship, since the private sector would not always find it cost-worthy to do so, leading to underutilized resources even in good times. Presaging Mazzucato’s work on the “entrepreneurial state” (2015) as well as the development model of several East-Asian countries, Keynes’s vision was one in which “the State would fill the vacant post of entrepreneur-in-chief, while not interfering with the ownership or management of particular businesses” (Crotty 2019: 344).

By his own admission, Crotty is neither an economic historian nor a specialist in the history of economic thought, but his extensive research on Keynes’ views as seen in his collected works through three decades places the argument in a clear historical and geopolitical context. What then should we make of his interpretation of Keynes?

Fuller (2019) weighs in on Crotty’s side and against Skidelsky (1983, 1992, 2000), and considers Keynes to have been a “non-Marxist socialist.” Krugman (2007) disagrees, ascribing Keynes’ seemingly radical views to the specific era he lived in (especially the Great

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<sup>1</sup>Ironically, interest rates in many advanced economies were zero or even negative for several years after the great recession, yet rentiers still flourished. This is partly explained by the shift in the composition of rentier income towards financial fees and capital gains. For a fuller discussion see Assa (2016).

Depression) and pointing out that Keynes' proposals were far less intrusive than those of some of his contemporaries.

One may be forgiven for wondering whether this whole debate is an exercise in semantics. It is clear that Keynes supported far more public involvement in the economy than textbooks make of his views (where Keynesianism is reduced to jump-starting the economy with fiscal stimuli). By contrast, Keynes recommended that the government take prime responsibility for maintaining efficient capital investment and full employment, not just in times of depression. On the other hand, he was also clearly opposed to state socialism and insisted on preserving personal private property and individual political freedom. Thus inevitably he was a proponent of something in between, a "middle-way" revolution in economic and political organization that "avoids the inefficiency and immorality of laissez-faire as well as the political dangers of Fascism or Communism" (Crotty 1999). Does it matter then if we call this hybrid system "social democracy" or "liberal socialism"?

The table below shows three of the four possible combinations of personal property (private or public) and investment (private or public). When both are private, we have laissez-faire capitalism, and when both are public, it is state socialism. The question at the heart of Crotty's book is what to call the case where most investment is public while personal property is still private. Is it Liberal Socialism or Social Capitalism?

		Investment	
		<i>Private</i>	<i>Public</i>
Personal Property	<i>Private</i>	Laissez-Faire Capitalism	Liberal Socialism or Social Capitalism?
	<i>Public</i>	N/A	State Socialism

At this point it is useful to remember that there is not one single type of capitalism, but rather several varieties of it (Hall 2015), for example liberal market capitalism of the Anglo-Saxon kind or social market capitalism of the continental European kind. But even more important than geographical and institutional differences at a point in time is the difference of capitalist realities across time. Keynes was specifically attacking the nineteenth-century version of laissez-faire capitalism, and it is unquestionable he wanted to *replace* that particular system:

The question is whether we are prepared to move out of the nineteenth century laissez-faire into an era of liberal socialism, by which I mean a system where we can act as an organized community for common purposes . . . while respecting and protecting the individual—his freedom of choice, his faith, his mind and its expression, his enterprise and his property (quoted in Crotty 2019: 324).

In his essay “Am I a Liberal?”, Keynes (2010 [1925]) made it clear that, while he could not identify with conservatives, neither could he identify with the Labour party:

Ought I, then, to join the Labour Party? Superficially that is more attractive. But looked at closer, there are great difficulties. To begin with, it is a class party, and the class is not my class. If I am going to pursue sectional interests at all, I shall pursue my own. When it comes to the class struggle as such, my local and personal patriotisms, like those of everyone else, except certain unpleasant zealous ones, are attached to my own surroundings. I can be influenced by what seems to me to be justice and good sense; but the *Class* war will find me on the side of the educated *bourgeoisie* (Keynes 2010 [1925]; emphasis in original).

Using this “negative test,” he concluded that only the Liberal Party fit his sensibilities. Using a more positive attempt at identifying his political views, however, he considered all actual parties of his time to be equally weak:

The historic party questions of the nineteenth century are as dead as last week’s mutton; and whilst the questions of the future are looming up, they have not yet become party questions, and they cut across the old party lines.

Instead, his preference for what Liberalism should be involved “a party which shall be disinterested as between classes, and which shall be free in building the future both from the influences of Die-Hardism and from those of Catastrophism” (Keynes 2010 [1925]).

While Keynes did not answer his own question on whether he is a Liberal, he did echo more closely today’s democratic socialists than traditional social democrats, “third-way” politicians and mainstream Keynesians who oppose capital controls, at least partly embrace globalization, and do not call for euthanizing the rentier function. Keynes did not merely want to save the capitalism of his day from depression, financial crisis or severe unemployment, but rather to control the economy in the service of social justice:

The transition from economic anarchy to a régime which deliberately aims at controlling and directing economic forces in the interests of social justice and social stability, will present enormous difficulties both technical and political. I suggest, nevertheless, that the true destiny of New Liberalism is to seek their solution.

Today we are faced with a similar question, as can be vividly seen in the intense primary debates among candidates for the Democratic nomination for president in the U.S. Some

want to continue Obama and Clinton’s third-way legacy of providing social floors for the poor while mostly leaving the corporate and financial sectors to their own devices. Others want a clean break and a more progressive agenda, which goes beyond damage control at the margins of a market-centered economy, and instead puts society in (democratic) control and directs the economy for the greater good. Today’s globalized world makes this second goal even harder than it was in Keynes’ time, but it is nonetheless a real political choice. If progressives are to be victorious in 2020, they need to make up their mind.

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