

# JOHN MAYNARD KEYNES AND 20TH CENTURY LIBERALISM

by Edward Dodson, Cherry Hill, NJ

During the key political fights for the land tax in Great Britain, the premier British economist of the era, John Maynard Keynes, was apparently silent. Roy Douglas, in his history of the land question in the United Kingdom, observes that Keynes was among the economists providing advice to Lloyd George on land policy but does not tell us what opinions the economist held. Lloyd George, for his part, was focused on agricultural land and wanted the state to take over ownership of land from the great landlords (with compensation) and turn it over to cultivators.

In 1926, Keynes wrote: "...I believe that [the Land Question], in its traditional form, has now become, by reason of a silent change in the facts, of very slight political importance." I read on but Keynes did not write further on what this "silent change in the facts" was. Nonetheless, subsequent events proved Keynes to be correct.

Between 1930 and 1934, the Labour Government was unsuccessful at getting a bill adopted to implement the taxation of land values. "For the remainder of the 1930s," wrote Roy Douglas, "the chief preoccupation of statesmen lay at first with industrial unemployment and later with international questions. Arguably, the land problem really stood at the root of both of these issues; but whether this be true or false, most men did not see things that way." Clearly, Keynes was in this group.

Not long ago, I finished reading the third volume of Robert Skidelsky's biography of Keynes. This book covers the last decade of Keynes's life, during which he was constantly troubled by the effects of severe and ultimately terminal heart disease. Off and on, he was charged with representing Britain's interests and position as a core power at a time when the British empire was nearing its end. Ironically, he spent very little time leading what would become the Keynesian revolution. Keynes in mid-1937 was simply too weak for the moment to engage his critics. Then, somewhat recovered, he began to write at a steady pace, including a letter of advice to the U.S. President, Franklin Roosevelt. He was becoming increasingly fearful over the world situation. To Virginia Woolf he wrote: "[The] state of foreign politics is nearly giving me a heart attack. I always knew that Neville [Chamberlain] was the lowest (I can't spell it) flattest-footed [sic] creature that creeps." Keynes may have sensed that the world he knew was about to implode.

As Britain inched closer to war, Keynes went public with his views on how to manage a wartime economy. He called for the shifting of resources to the more depressed northern cities and the availability of credit at low rates of interest. He argued that the government could achieve rearmament by borrowing, and that taxation of the resulting increased incomes would bring in enough revenue to service the debt. As the looming menace of fascism emerged,

Keynes worried that the nation's defenses were not being strengthened and that this increased the possibility of war. In a published article on foreign policy, he declared: "Britain should build up its naval strength and wait for the dictators to make mistakes."

At this critical point in the coming conflict, Keynes hoped an alliance with the United States could be achieved. Once the war began and Keynes was dispatched to the United States to negotiate assistance, he would have to deal with Americans who had no interest in providing the means by which Britain could hold on to its empire. Skidelsky concludes that "Keynes never appreciated the extent of Anglophobia in the United States."

With war and Winston Churchill called on to become Prime Minister, Keynes was initially left out of the government's team of economic planners. His health was one issue. Instead, Keynes hosted a number of informal meetings in London with many who were part of "his old circuits of influence and persuasion." He argued for assigning a minister with the powers to establish and enforce domestic policies. With Hitler gaining control over more and more of the European continent, Keynes realized the survival of Britain would ultimately depend on U.S. involvement on the side of Britain. Assuming this occurred and the Axis powers were defeated, Keynes saw that the future would require a significant shift to social democracy if Soviet-style state-socialism was to be checked. In an article published during 1940 in the *New Republic*, he wrote:

"The reformers must believe that it is worth while to concede a great deal to preserve that decentralization of decisions and of power which is the prime virtue of the old individualism. ...Civilisation is a tradition from the past, a miraculous construction made by our fathers ... hard to come by and easily lost. ... "The old guard of the Right ... must surely recognize ... that the existing system is palpably disabled, that the idea of its continuing to function unmodified with half the world in dissolution is just sclerotic. Let them learn from the experience of Great Britain and of Europe that there has been a rottenness at the heart of our society, and do not let them suppose that America is healthy."

And, in a private letter he observed: "I wish I knew what dialectical materialism is. But I know from long experience and many efforts that this is doomed to be a sealed book to me. I shall never know." Most of us can empathize with Keynes with respect to Marx. Surely, he could have had no such experience with the political economy of Henry George.

The irony is that Britain's landed interests were bound to benefit by increased government spending and borrowing absent the imposition of an appropriate charge against land rents. There would be (continued on page 6)



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no serious attack on the true source of "rotteness" that existed in his and other societies.

Franklin Roosevelt gradually managed to channel assistance to Britain in the form of Lend-Lease and the sale of arms, even though the United States in 1940 was hardly prepared to defend itself if attacked. Despite this assistance, by the end of 1940 Britain was nearly bankrupt. Although most senior U.S. officials certainly wanted to see Germany defeated, they were not interested in a post-war world that left any of the Old World empires intact, including that of the British. This was certainly the attitude of the U.S. Secretary of the Treasury, Hans Morgenthau, with whom Keynes met after arriving in the U.S. in May to join the Lend-Lease and trade negotiations. During this period, Keynes also met with economist Harry Dexter White, who would become the primary architect of postwar financial stabilization. He returned to Britain at the end of July, confident an agreement was nearing; however, this was not to be, and U.S. support of Britain remained uncertain even after the U.S. declared war on Japan and, then, Germany and Italy.

During 1942, Keynes was directly or peripherally involved in almost every aspect of how the British authorities worked to finance the war effort and discussions of how the government should approach economic policy once the war had been won. His was not an important voice in the political debates, however. And, his idea to convert Europe into a large number of small, independent states with their populations as homogeneous as possible never gained any support. With Russia in the war, "left-wingers" in the U.S. -- blind to the ruthlessness of Stalinism -- looked to the U.S. and Soviet Union as the powers inheriting the future. Keynes still failed to recognize the extent to which American disdain for British imperialism directed U.S. policies. Moreover, the person he had to negotiate with most directly was Harry Dexter White. And, within Britain, his proposals were largely ignored as too timid by a Labour government that turned Churchill out of office. Keynes died before the U.S. response to Soviet aggression came in the form of the Marshall Plan. The British public was also weary of the responsibilities and obligations of empire.

Had Keynes joined with Georgists in their call for government to look to land for revenue, the political reaction is likely to have been no different. As Roy Douglas tells us, in 1945 the "new generation of Labour leaders ... were mainly interested in industrial nationalization and the extension of what was called the 'welfare state'." As Keynes predicted, the central importance of the land question was lost to those on the Left -- and those on the Right were surely relieved. Here we are decades later, with a Labour government at the helm in Britain and searching for a "third way." Well, we know the way. Hopefully our colleagues across the Atlantic will have more success than the generation of activists about whom Roy Douglas wrote so well. <<

(Ed Dodson may be emailed at [EJDodson@comcast.net](mailto:EJDodson@comcast.net))