

J.M. Keynes, F.A. Hayek and the Common Reader

C. Repapis¹

1 October 2013

Abstract

This paper gives an account of the debate between F.A. Hayek and J.M. Keynes in the 1930's. The purpose for this is twofold. First to provide the general reader with a narrative of what happened, and pointers to further reading that are accessible to the non-specialist. Second, to discuss how academics can fruitfully bridge the gap between their specialist work and the public without reducing complex themes into one-dimensional narratives. I use the Keynes vs. Hayek debate as a case study on how this may be achieved.

Keywords: J.M. Keynes, F.A. Hayek, Business Cycles, Common Reader

¹ Correspondence may be addressed to St. Peter's College, New Inn Hall street, Oxford. E-mail: Constantinos.repapis@spc.ox.ac.uk. I would like to thank Professor G.C. Harcourt for interesting comments and suggestions.

1. Introduction

A study of the history of opinion is a necessary preliminary to the emancipation of the mind. I do not know which makes a man more conservative - to know nothing but the present, or nothing but the past. (Keynes, 1926)

As I write these lines a youtube video titled “Fear the Boom and Bust’ a Hayek vs. Keynes Rap Anthem” uploaded on January 23, 2010 has more than 4,400,000 views, and has spawned another two videos, one titled “Fight of the century, Keynes vs. Hayek round two” with 2,400,000 views and “Hayek’s Gift” with 163,000 views.² This is not the usual material that goes viral on youtube. But, somehow bizarrely, it is not that surprising. Both Hayek and Keynes have been so much in the public debate from the start of the current economic crisis that their views, theories and lives have become subjects of popular interest. In this spirit the BBC has recently completed a three part series titled Masters of Money, where Stephanie Flanders looks at the life, work and influence of Keynes, Hayek and Marx.

It is not only the media that has picked up this trend. Nicholas Wapshott, a journalist, wrote *Keynes Hayek, the clash that defined Modern Economics* (2011). The book has been read widely and has been reviewed both in the public (Clarke, 4 February 2012; Congdon, 29 February 2012; Koehn, 23 October 2011) and academic press (Cochran, 2011; Cornish, 2013; Davidson, 2012; Patrick, 2012; Skidelsky, 2013; Steele, 2012; Tankersley, 2012). Furthermore, other writers have worked on similar topics (Hoover, 2003; White, 2012; Yergin and Stanislaw, 2002). Also, a number of new monographs have investigated related themes, for example the rise of neoliberalism until the financial crisis (Jones, 2012) or the fortunes of free market ideology after the Great Depression (Burgin, 2012). These books, some academic studies and others more journalistic in character, are written in a variety of styles, and by authors with diverse backgrounds. Nevertheless,

² I want to thank Jonathan Haas for first bringing this video to my attention, and the many students who have asked to discuss it in tutorials even since.

they are all written at least partly for the general public, and not only for the specialist.

There are a number of interesting questions that this literary and other media activity brings to the fore. One is a question of usefulness of any such exercise, other than entertainment. A usual charge is that historical parallels between the current crisis and the great depression are based on facile generalisations. I do not agree with this view, but, most importantly, I do not find it relevant to what these and other similar texts that are available to the general public actually do. These texts focus on key episodes that bind personal histories with broader socio-economic conditions.³ It is not surprising that they are popular. By their ability to move from the specific to the general they give meaning to a period of history that the common reader finds interesting in its own right, and useful in understanding the ideas that shape modern political discussion.

Such an activity is deeply democratic and goes against the compartmentalisation and cloistering of knowledge that increasingly defines academic disciplines in humanities and the social sciences. Informing the public about these central intellectual figures, their work, and how their work was shaped by their beliefs and personal histories is a way to add into the public dialogue. In essence this argument is not new. The Common Reader tradition in English literature has analysed how the creation of a mass reading public from the 19th century onwards shapes and is shaped by what is written. Altick writes “the history of the mass reading public is, in fact, the history of English democracy seen from another angle” (Altick, [1957] 1998, 3). Furthermore, celebrated literary figures from Dr. Johnson to Virginia Woolf have seen the common reader with a sympathetic eye accepting that he has a say in the final distribution of “poetical honours” (Johnson, 1866, 614).

³ Lawrence White explains how such stories employ a non-linear historical narrative approach with flashbacks and other digressions that brake up tight chronological sequencing. At the same time these digressions should not scramble events in such a way that the narrative the author is trying to create confuses the reader. White, in, what is, I think, the best description of how this approach works calls it “*Tarantinoesque*- only with more polite language and slightly less bloodshed” (White, 2012, 3). This insight opens up an interesting and related discussion: How do we construct effective narratives? Are there techniques which are acceptable and others which are not? I will not attempt to deal with this set of questions in this paper, taking as a given the existence of a narrative, and building on to that. But questions on how to build storylines and how the storyline affects the scheme proposed in this paper are important and merit further investigation.

Equally, the general public today expects that economic theory and theorists will advance arguments and advise both the public and governments on policy issues implying that this is, to some degree, the reason for research. And while a full scale investigation of the habits, interests and motivations for this 'common reader of economics' remains a desideratum in academic study, it is without question that these popularizations perform a useful function in a democratic society.

There is, however, a danger. That danger is a descent into oversimplification and caricature. Instead of making the public debate richer and deeper, these stories can simply infuse it with drama and historical colour. Is there a way to avoid this? And how can we do it without reducing what we have to say to an academic argument detached from the public debate, or worse, to a scholastic exercise that excites only our professional peers?

I have no fully formed answer to this question, and I suspect there isn't a general answer that could cover the wide array of topics that connects historians of economic thought with the wider public. Instead, in this paper, I explore a specific approach in the context of the Hayek vs. Keynes intellectual duel that is already in the public spotlight. My approach is based on the conviction that no single text can do justice to such a rich theme, with its complicated technical analysis and ideologically charged episodes. Instead I utilise the following device. In the next section I build a simple and brief narrative that captures what I consider to be the main aspects of this debate, so that the reader can get a general idea of the intellectual battle. Then in section three I build a commentary on the narrative that guides the reader through a list of readings that he can go and explore if he wishes, so that he can gain a more substantial understanding of these issues. At another level, this commentary effectively works against the simple story constructed, and it allows different readers to interact in their own way with the narrative of the previous section. Some satisfied with the simple précis may leave it at that. Others may wish to explore specific aspects of the debate that they found interesting. Others still, may use the commentary to detach themselves from the certainty a simple narrative gives, and realise, to some extent, the complexity of the theme and natural limits of the narrative provided.

Even if we agree with all of this, we can argue that this device holds nothing new. Books, both academic and more journalistic in character, have bibliographies and footnotes, some of them quite voluminous. Isn't that effectively the same thing? I do not think so. The problem is the following: If the book is written in a way as to give substantial referencing and commentary in the text with long footnotes problematizing every generalization the author is making, it will lose its appeal vis á vis the common reader. If the supporting structure is too lean, then it cannot take the reader very far. In all cases the text frames the literature review in a way that I find too limiting, as it can only deal with points directly raised by the main narrative itself. Freeing the texts from this symbiotic existence allows more freedom for the writer who may try at times to add more and more detail on a heaving storyline, and the reader from the unpleasantness of skipping or skim reading parts of the text as his patience runs out. The most important reason, however, is that it re-establishes a balance between the author, the reader, and the other writers that is democratic and aims to inform rather than argue.⁴

How successful this approach is in solving the problems previously outlined in establishing a link that is deep and thought provoking between the writer and the general public is something that will be further discussed in the conclusion of this paper. But, before that, we visit the Hayek vs. Keynes debate one more time.

2. Keynes vs. Hayek: A (very) brief overview of the debate

In this brief overview I do not intend to flesh out in detail the theories of both economists. Instead, in the interests of brevity, I will focus on Hayek's theory of money and the trade cycle, and bring in Keynes as the other side of

⁴ It should be mentioned that a couple of books, though not all, that aim to inform the public have a section on further reading with a brief commentary, as for example we find in (Skidelsky, 2010) My suggestions in this paper are in line with this practice. In fact, they provide arguments why such sections are necessary, and possibly why they should be longer and give more information about reading sources and how they connect to what the writer argued in his narrative, instead of being akin to brief lists of books and articles. Therefore, this is a plea to authors to use this further reading section in a more imaginative fashion, even if this leads them to question the narratives constructed in their main text, and reveal to the reader inevitable incongruences.

the argument, the contrasting view. I concentrate on Hayek because Keynes' theoretical output is in some sense more varied, as first, he did not formulate only one theoretical scheme in the 1930's, and second Keynes' theoretical output has had a broader and more complex interpretative tradition in macroeconomics than Hayek's, as it is the starting point of a number of modern intellectual schools or traditions of economic thought.

To set the stage, it is worth repeating certain features of the economic conditions of the 20's. The decade of the 20's had been for the western world one of unparalleled prosperity. As Professor Lionel Robbins writes in his book *The Great Depression* published in 1934 "[the 20's was] a period, indeed, which ...can be seen to have been one of the biggest booms in economic history. Trade revived, incomes rose. Production went ahead by leaps and bounds. International investment was resumed on a scale surpassing even pre-war dimensions. The stock exchanges of the more prosperous centres displayed such strength that speculation for a rise seemed a more certain path to a secure income than all the devices of ancient prudence" (Robbins, 1934, 7). This was not to last for long. The period from 1929 to 1933 was to upset the confidence that economists and politicians had in the free market for most of the latter part of the 20th century. As early as 1934, Robbins proclaimed: "There have been many depressions in modern economic history, but it is safe to say that there has never been anything to compare with this. 1929 to 1933 are the years of the Great Depression" (Robbins, 1934, 11).

Some aggregate figures show the extent that the Great Depression disrupted normal economic activity. In the UK from 1929 to 1931 unemployment doubled, so, in figures, from 1,204,000 unemployment reached 2,666,000 in 1931, and 2,821,000 in 1933. In the USA unemployment which was 2,964,000 in 1930 reached the figure of 13,359,000 in 1933, which means that it more than quadrupled in size in three years.⁵ The same time industrial production fell sharply in the USA and less so but significantly in the UK. An indication of economic conditions globally, is that the value of world trade in 1932 was less than half of what it was in 1929. This

⁵ All figures are from (Robbins, 1934, 203-238)

is, briefly, the predicament that the developed world found itself in the early 30's.

How did the economic profession respond to these unprecedented events? Keynes through a series of popular articles, pamphlets, and his book *A Treatise of Money* published in 1930 was trying to provide a new theoretical base that would be in line with these events. He was still groping with the ideas that would bear fruit in 1936, and be elucidated in one of the most important economic books of the century, *The General Theory of Employment, Interest and Money*. Equally, the London School of Economics (L.S.E.) was in turmoil.

In the early 1930's the L.S.E. had no economist of equal stature and authority to Keynes. Professor Robbins decided to bring from Austria a theorist that could add to the school's research profile, putting it on par with Cambridge. This was none other than Friedrich von Hayek. On January 1931 Hayek would give four lectures on the Austrian theory of the trade cycle that would be the opening shots in the upcoming battle between these two theorists. Later that year these lectures would be published in book form with the title *Prices and Production*. Arguably, this became the most celebrated book by Hayek in the 1930's.

Prices and Production develops a theory that attempts to explain a typical trade cycle in such a way that it reconciles the Austrian theory of value with the macroeconomic phenomena of the 1930's. This means that Hayek tried to build on existing economic theory, and especially on the analytical foundations of the Austrian school of economics in order to show that this theoretical framework can be extended to explain extreme events like the Great Depression.

A simple view of how a typical trade cycle works can be seen in figure 1. The diagrams in figure 1 depict two distinct scenarios. In both cases we start from an equilibrium position which has interest rate (r), and a volume of loanable funds (A). At point (a), the amount of saving people are willing to supply at this interest rate equals firm's demand for funds for investment projects. On the left diagram we have an autonomous increase in saving, where people decide to voluntarily save more of their income. On the right we have an increase in the supply of money in the economy, where the central

bank, or the commercial banks, decide to increase credit to the producers/entrepreneurs, while none of the underlying real factors of the economy have changed. This means that people have not decided to save more than before. Instead this gap between what people intend to save and the volume of investment is filled by the credit expansion.

We first consider what happens when there is an autonomous increase in saving by the population. It is important to note that in Hayek's view of the world, savings are always funnelled to increased opportunities for investment. Therefore, when people decide to save a greater part of their income, it necessarily follows that we have a shift out the supply curve. This is because we have a change in the amount people intend to save for every level of the interest rate. Given the decreasing profitability of investment plans; so that at lower interest rates more plans can yield profit; the demand for loans is a negative function of the interest rate. The new intersection of the curves shows that the outcome of this autonomous increase is to permanently lower the interest rate and permanently increase the volume of investment plans materialising. Thus, through thrift, the future abounds with goods. Today's increase in saving leads to a more prosperous future, as lower interest rates allow producers to reorganise production in such a way that it will yield more consumption goods in the future. This new production process is more 'sophisticated' or to put it in standard terminology more 'roundabout'. It was lower interest rates that made setting up this new process economically viable, and made economic growth possible.

Next, we consider what happens in the second case, when the shift in the supply schedule is not the outcome of thriftiness, but of increased credit supplied by the commercial banks or by the central bank. Hayek noted that when commercial banks in their blind pursuit for profit, or the central bank in its wish to reap political gains, abuse their role as intermediaries between the public that saves and the entrepreneurs that invest this saving, what follows is a trade cycle.

Therefore, when the central bank increases the supply of credit in the economy, the new short period equilibrium position is at B'. But this is not a stable equilibrium. Soon enough, as prices start to rise, and some of the investment plans are in arrears banks start to realise that they do not have the

stream of savings to finance this increased activity in the investment sector. In fact, the credit expansion that depressed the interest rate also decreased the wish of the individuals to save. As we are still on the old supply schedule, at the new interest rate (r') individuals would wish to reduce the amount they save to point C'.

As the economy adjust to these new conditions it becomes increasingly apparent that the level of saving that individuals wish to hold captured by (C') does not correspond to the level of investment in this economy, captured by (B'). Overnight the interest rate rises as the banks try to safeguard their reserves from depletion. At the same time banks start to cut lending. The crisis stage of the trade cycle is imminent. The 'irrational exuberance' that created the boom sowed the seeds for the crisis, and nothing that the government can do can alter the course of events now. During the crisis stage of the cycle, and as the economy reorganises itself so that those plans that were over-ambitious close down, we observe the common phenomena of increased unemployment, decreased production, and wage deflation. If the government, through the central bank, continues to keep artificially low the interest rate, so as to avert the crisis, it is only buying time. The government cannot avoid the crisis for ever because then the value of paper money would be reduced to zero. Therefore, the longer the crisis is averted, the bigger the economic *mal*coordination created by government intervention, and the more violent the crisis stage of the cycle, when eventually reached. For Hayek, the government displays wisdom when it lets the market operate unhindered and opportunism when it interferes.

There could not have been a greater gap to bridge in policy recommendations than between those of Hayek and Keynes. Keynes viewed the crisis stage of the cycle not as punishment for the irresponsibility of the boom, brought about by people consuming too much, but, as a crisis of confidence, that tipped the delicate balance of a market economy. For stability to rein again it is necessary for the government to intervene. Keynes wrote in December 1933, in an open letter to President Roosevelt, "I lay overwhelming emphasis on the increase of national purchasing power resulting from governmental expenditure which is financed by loans and is not merely a

transfer through taxation, from existing incomes; nothing else counts in comparison with this" (Keynes, [1982] 2012, 293).

To understand how this position is rooted in theory we need to look ahead at the arguments that were to develop in the *General Theory*. There, the neo-classical causal relationship which underlines Hayek's theory brakes down. The analysis does not start from the independent saving decisions of individuals, and then, from these actions/decisions all other variables are determined. Instead, we start from the money rate on interest, which is determined in the financial market, and given the prospective yield of capital at any point in time, we have a volume of investment. This, through the multiplier process, determines income and the level of saving in the economy. Therefore, causality is reversed! Investment determines income and income determines the level of saving in the economy, and not vice versa. This is because when people earn more, they are able to consume and save more. Keynes was afraid of the vicious cycle, in which reduced income leads to unemployment, unemployment causes lower consumption, and reduced consumption further reduces income. He writes in the *General Theory*, "the traditional analysis has been aware that saving depends on income but it has overlooked the fact that income depends on investment, in such a fashion that, when investment changes, income must necessarily change in just that degree which is necessary to make the change in saving equal to the change in investment" (Keynes, [1936] 1973, 184).

Hayek's world was still one in which saving dictated the interest rate, and the level of investment, given the profitability of investment plans. For Hayek during the crisis what was observed were investment plans being abandoned because people wanted to consume more, and it was either the central bank with its opportunistic behaviour of making money cheap, or, the irresponsible behaviour of the market participants that caused the crisis. From this he deduced not only that the government had no good role to play in this affair, but, that the crisis is important in order to bring back in line those who thought that opportunism could triumph over prudence.

Hayek also saw another disturbing prospect in Keynes' recommendation of government intervention. He perceived part of Keynes'

argument as a step towards totalitarianism. Could it be that Keynes' therapy of capitalism was putting society on a path towards socialism?

With the publication of *The road to serfdom* in 1944, which Hayek wrote during WWII, we have a first idea of the grander conflict that was to develop after the war between these two broad views of social organisation and the limits of market activity outside the Soviet Bloc.

Hayek even in his monetary theory displayed a strong dislike for anything that could restrict the freedom of action of the individual. He believed that individuals are absolutely sovereign. He could not morally accept any kind of social organisation where man is not permitted to pursue his own end unhindered. In the road to serfdom he wrote "economic life is the administration of the means for all our different ends. Whoever takes charge of these means must determine which ends shall be served, which values are to be rated higher and which lower, in short what men should believe and strive for" (Hayek, 1944, 121). This is why he feared the growing power of the state.

Keynes agreed in principle with Hayek. He wrote to Hayek when he read his book: "morally and philosophically I find myself in agreement with virtually the whole of it; and not only in agreement, but in deeply moved agreement." (Keynes, [1977] 2012, 385) But then Keynes wondered: "You admit here and there that there is a question of knowing where to draw the line... you give us no guidance whatever as to where to draw it [meaning on practical policy matters]" (Keynes, [1977] 2012, 386). This was the essence of the argument. Both Keynes and Hayek believed in the principles of western liberalism and in individual choice.⁶ But, where Hayek was dogmatic, Keynes was practical. Hayek could not excuse government intervention in order to ease social tensions even during the Great Depression. Keynes was always concerned with real situations and their immediate cures; abstract principle

⁶ By 1940 Hayek appeared equally convinced that the differences between Keynes and himself are not a full blown dispute on the form of economic organisation that societies should strive for. Keynes was not a socialist, and saw himself grounded in the liberal capitalist tradition of the west. This became evident in the correspondence following the publication of *How to Pay for The War* in February, 1940. Hayek in a letter to Keynes on the 3th of March 1940, wrote "It is reassuring to know, that we agree so completely on the economics of scarcity, even if we differ on when it applies" (published in Skidelsky, 2006, 83).

did not appeal that strongly to him.⁷ Yet, it was his vision of employing whatever means necessary in order to effectively improve the economic conditions of the people that was to be the norm in policymaking in the 30 years that followed WWII. Hayek's belief in limited government, less regulation, more unhindered market activity, would become very fashionable from the early 80's and is so up to the present. This intellectual conflict, emanating from pressing questions on monetary and fiscal policy during the great depression, brings into focus broader issues on the role and limits of markets. It is the breadth of vision that is inbuilt in the theoretical arguments of these two great economists that makes their views transcend their historical time and speak to us today with an immediacy that is both fresh and revealing.

3. A Discussion on Further Reading

Robert Skidelsky opens his review of Wapshott's book by noting that "there have been many books about Keynes and Hayek, but no one has written a book centred on their intellectual rivalry" (Skidelsky, 2013, 218)⁸. Professor Skidelsky is the best authority on the subject as he is the author of the most celebrated intellectual biography of Keynes ever produced. His three volume work distinguishes three periods of Keynes' life and intellectual development. The first volume (Skidelsky, [1983] 1992) deals with his early life and ends with 1920, a year after Keynes published *The Economic Consequences of the Peace* (1919) a celebrated book that discredited the Versailles peace treaty and its harsh conditions for Germany. It is the book that propelled Keynes to

⁷ Hayek used Archilochus famous fragment that "the fox knows many things, but the hedgehog knows one big thing" to effectively describe their antithetical characters. Keynes' foxy nature can easily be gleaned from the following quote taken from his BBC radio address on May 23, 1939 "If expenditure on armaments really does cure unemployment, a grand experiment has begun. Good may come out of evil. We may learn a trick or two which will come in useful when the day of peace comes." One wonders if it was this BBC broadcast that moved Hayek to write *The road to serfdom*.

⁸ Lawrence White's (2012) book was published the year after Wapshott's, and is, in many ways, a very different book. Its narrative style makes more extensive use of flashbacks to track evolution of ideas, occasionally going back centuries. This shows how varied the narrative technique is between different contributions, and that more work needs to be done on how narratives are constructed in HET books that are written for the non-specialist.

stardom. The second volume (Skidelsky, [1992] 1994) deals with the period 1920-1937, and it is during this time that the rivalry with Hayek is the strongest, as this was a period when both economists are working on abstract macroeconomic theory. Finally, the third volume (Skidelsky, [2000] 2001) deals with the period 1937-1946 and finds Keynes engrossed in policy making. Keynes had to convince himself and others of when and how his theories were to apply. Most importantly Skidelsky's work shows that this intellectual battle with Hayek was one of many intellectual and policy battles running concurrently by Keynes in what was a full and varied life.

For those who find that three volumes spanning more than 1400 pages is a bit too much, there is a one volume edition running to about 850 pages (Skidelsky, 2004). There is also an extensive and rewarding review of the work in (Harcourt and Turnell, 2005) also found in (Harcourt, 2012). Skidelsky has written a short introduction on Keynes that is brief but goes into some detail on Keynes' work, making it possibly a challenging read for the non-economist (Skidelsky, 2010). It is also worth mentioning that Keynes has been the subject of a number of other biographies (Barnett, 2013; Davidson, [2007] 2009; Harrod, [1951] 1963; Hession, 1984; Moggridge, [1973] 1993 ; [1992] 1995). Harrod's biography is distinguished by being the first full book biography written, and by a person who knew Keynes well. Austin Robinson's obituary article in the *Economic Journal* is also interesting as he was a student and close colleague of Keynes (Robinson, 1947). Finally, a set of essays published in the Cambridge Companion series, illuminate aspects of Keynes' complex personality and diverse interests (Backhouse and Bateman, 2006).

Hayek was born in 1899, 16 years after Keynes, and lived for another 46 years after Keynes' death in 1946. Alan Ebenstein published in (2001) the first full biography of Hayek, and introduced the following periodization of Hayek's life: (1) 1899-1931. Hayek's early years in Vienna. (2) 1931-9. From Hayek's LSE appointment to 1939, when he was evacuated with the rest of the LSE to Cambridge. (3) 1939-1949. The war years and post-war period in England. (4) 1950-1962. In 1950 he moved to the University of Chicago, and remained in the USA until 1962. (5) 1962-1974. In 1962 Hayek returned to Germany and accepted a position in the University of Freiburg. (6) 1974-

1992. In 1974 Hayek received the Nobel Prize in Economics. This marked his return to the public and academic spotlight. His reputation as one of the greatest thinkers in economic and social theory, after 1974, would never really be in question.

What this periodization shows is that the Keynes-Hayek intellectual battle found Hayek at the start of his long academic career, and Keynes at the natural and premature end of his. It also raises a question that section's 2 narrative sidesteps. Why and how was Hayek offered the Tooke Chair at the LSE, which set the stage to subsequent events? Recent findings by historian Susan Howson show that this dramatic duel was not the outcome of forethought. While it is true that the LSE was actively looking for an economic theorist to take up the Tooke Chair in Economic Science and Statistics in 1931, Howson shows that it was first offered to Jacob Viner (Howson, July 2012, 15-6). However, Viner decided not to take it up. It was then offered to Hayek. Hayek's work until that time was all in German. His first book on business cycle theory was published in 1929, and Howson notes that it attracted the attention of Robbins (Howson, July 2012, 13). Robbins was probably instrumental in getting Hayek to give the set of lectures at the LSE on January 1931 that were published in book form (*Prices and Production*) and led to his LSE appointment. This was, in more ways than one, a fortuitous appointment. The episode is explored in detail in (Howson, 2011).

However, this should not be taken to mean that I view this duel as a historical accident that merits no further investigation. This is because Hayek is- and here counterfactuals are pointless- arguably the most celebrated free market thinker of the 20th century. Hayek's complex evolution of thought is captured in a number of intellectual biographies. The most important are: (Caldwell, 2004) which is written by the editor of Hayek's collected works, (Ebenstein, 2003) a work that complements Ebenstein's biography of Hayek, and (Barry, 1979) which was effectively the first book in this broad category, written when Hayek was still alive. (Hayek, 1994) is a detailed recounting of Hayek's life by himself through the use of a number of interviews with him. Finally, of the many shorter pieces and articles that discuss Hayek's life and thought, I find (Shackle, [1981] 1983) particularly interesting as Shackle was

at the LSE in the 1930's as a Ph.D. student of Hayek's, and was unique in being close intellectually and personally to both Keynes and Hayek.

Shackle is also remembered for writing the first book that discussed the intellectual discoveries of the 1920's and 1930's from a history of economic thought perspective (Shackle, 1967). His book has become a classic in the field. It is interesting for the modern reader for another reason as well. Hayek is effectively not mentioned in Shackles' story. *Prices and Production* does not even appear in the index. This omission was not picked up by reviewers of the book in academic journals at the time (see e.g. Baumol, 1968; Harrod, 1968) But most importantly it was in line with other books of the period on similar themes, like Donald Winch's study of the relation between Economics and Policy that included the interwar period (see Winch, 1969). This can be explained by remembering that in the late 60's Keynes had won the day. But what is interesting is that the 30's were not depicted as a clash between Hayek and Keynes, but as a clash between Keynes and a host of other economists and their theories, one of which, at best slightly more important than the others, was Hayek. This is not to belittle Hayek's importance, but to show the shifting sands of historiography.

Since the 90's narratives of this period, even when sympathetic to Keynes, would ascribe a larger role to Hayek. Laidler's modern classic on the Keynesian revolution has a chapter on the Austrian Theory of the Trade Cycle (see Laidler, 1999, 27-50).⁹ Robert Cord, who attempts to explain Keynes' success in the 1930's from a sociology of science perspective, places Hayek and his research program as the LSE competitor to Keynes and Cambridge (Cord, 2013). It can be argued that Hayek's relative importance in the 1930's debates, as viewed by the history of economic thought community started to change in the late 1980's. Marina Colonna, Harald Hagemann and Omar Hamouda the organisers of an important conference on Hayek's work in 1992 note "while the conference and the essays are the consequence of the recent revival of interest in Hayek's work, several of them take up the ideas that

⁹Laidler makes the following revealing remark "Though there was no overt debate immediately after 1936 between 'Mr Keynes and the Austrians' in the sense of an explicit exchange on the relative merits of these two systems, there surely was a silent debate in the minds of many economists as they decided which body of doctrine to adopt." (Laidler, 1999, 49)

engaged economists during the 1930s and early 1940s on Hayek's early work" (Colonna, Hagemann and Hamouda, 1994, XV). The two volume edition of the conference papers published in 1994 (Colonna and Hagemann, 1994; Colonna et al., 1994), re-invigorated interest in Hayek's early work, and changed how scholars viewed his early contributions. These volumes give a very good overview of Hayek's work, but they are unfortunately, difficult to find.

Between the 40's and this revival of interest from the HET community, there was a community of scholars that continued working on Hayek's theoretical output and on Austrian business cycle theory. Hayek was not the only Austrian economist who emigrated to the USA either before or soon after the second world war. Many, most importantly Joseph Schumpeter, Gottfried von Haberler, Fritz Machlup, Oscar Morgenstern, and Ludwig von Mises, had accepted academic positions in the states in the first half of the 20th century. The story of this movement and the creation of a new Austrian school of thought in the USA is told in (Vaughn, [1994] 1998). There is a substantial body of theoretical work that has been produced by these scholars and cannot be adequately surveyed here. A pointer of where to start may be to look at (O'Driscoll and Rizzo, [1985] 1996), a seminal book on neo-Austrian economics, or possibly, Israel Kirzner's work (e.g. see Kirzner, [2000] 2006).

What should be noted, even briefly, is the work of macroeconomists within that school that trace their work back to Hayek's business cycle contributions in the 1930's and 40's. Roger Garrison has been a major proponent, and has written extensively on the subject. Garrison (2001) gives a good overview of this material. (Ebeling, 1996) is an edited volume that is comprised of short essays on Austrian business cycle theory written for the general public. Garrison has two essays in that volume. The figure found in (Ebeling, 1996, 113) depicting the different types of Hayekian expansions was used in the explanation of Hayek's theory in the previous section. This also alludes to an important issue in approaching Hayek's and Keynes' work. Because the primary material is technical, conceptually difficult, and written primarily for academic economists, the general public often approaches this work through intermediaries. Garrison's work is both to inform the public and to advance research in this field.

Nevertheless, the difficulties of the key texts themselves are not only a problem for the common reader. Even questions concerning the core of Keynes's message have divided economists from the 40's onwards. Therefore today economists that identify as Keynesians would disagree on almost anything, from policy issues to philosophical and methodological questions, or even what constitutes proper economic analysis and what does not. What unites them is a belief that the market economy is flawed in some way, and that the government has a role to play especially in periods of economic crisis. This is where agreement ends. Then schools have been constructed around key ideas that emanate from Keynes's original texts, or see these texts as part of their intellectual heritage. The most dominant school in academic economics today that follows this line is New Keynesians, who identify market imperfections, especially issues of price stickiness, or information imperfections, as key reasons why the market system operates less than perfectly. This fields' output is quite technical and good introductions for the non-specialist are not easy to find. A suggestion is (Gali, 2008) especially the introduction and concluding chapters that are non-technical and broad in scope.

Another school of thought that follows Keynes are the post-Keynesians. This is a very diverse school of thought, with many strands focusing on different analytical and methodological approaches. An introduction to this literature can be found in (Lavoie, [2007 [2009]) or (Harcourt, 2006). An example may give an indication of how much the interpretation of Keynes' message varies between these two traditions. Paul Davidson, an important American Post-Keynesian, finds fundamental uncertainty to be the key insight of Keynes. He sees the future as unknowable, and disagrees with efforts to quantify this uncertainty by placing probability estimates on possible future outcomes. This leads Davidson to a completely different analytical understanding of the economy to that of the New Keynesians, whose models use expected values and probability outcomes.

Hayek's relation to macroeconomic theory after the 1940's faces different problems to Keynes'. Whereas Keynes had a diverse following, Hayek's technical work had, after the 40's, almost no following outside the

new Austrians. He may have been in the University of Chicago in the 50's and early 60's, but this does not mean he influenced substantially macroeconomic thought there, or that his technical work was seen as a progenitor to that school of thought. Skousen (2005) has written an accessible book on the relation between the Austrians and the Chicago school of economics.

Furthermore, some scholars have argued that New Classical macroeconomic theory, starting from the late 70's and early 80's and focusing on general equilibrium business cycle analysis with a capital theory component is really a continuation of Hayek's research work. (Ruhl, 1994) and more extensively (Zijp, 1992) assess this thesis. They both find this not to be the case, but the reader may decide for himself when reviewing the evidence in these studies.

The question that naturally arises as we look back in this discussion and wonder: Why set up a narrative around Hayek and Keynes? Hayek lived until 1992 but his technical economic work was neglected after the 1940's, and Keynes died in 1946 and his economics lived on but in the hands of other theorists after him. Their clash in the 1930's is important from a history of economic thought viewpoint, but so are other clashes or disagreements back then, for example, between Keynes and Tinbergen (another Nobel laureate in economics). Why has this debate gained such momentum with the general public?

The answer to this question is that both theorists have become standard bearers of very broad policy positions. Their work was deep, insightful and varied as it combined economic analysis with broader visions of the social order. This is why I find that it is important to visit the primary texts, and decide on the merits of their arguments first hand. Keynes' *Collected Writings* ([1971-1989] 2012) have been published by Macmillan for the Royal Economic Society. They comprise of 30 volumes in total, edited by Donald Moggridge, Austin Robinson and Elizabeth Johnson. From 2012 all of them are available in paperback. The first ten volumes are Keynes' published books with *The General Theory* being volume 7. Volumes 13, 14 and 29 deal with the period prior to and after the publication of the *General Theory*, and give interesting information of how the ideas it contains came into existence. The other volumes deal with Keynes's varied activities and correspondence.

Hayek's collected works are in the process of being published by the University of Chicago Press. The general editor is Bruce Caldwell. The first 10 volumes (Hayek, 1988; 1991; 1992; 1995; 1997; 1999a; 1999b; 2007b; 2012a; 2012b) plus volumes 12 (Hayek, 2007a), 13 (Hayek, 2010) and 17 (Hayek, 2011) are out, with volume 15 projected to be published in 2014. In total 19 volumes are expected to form Hayek's works. These works have extensive introductions from leading scholars in the field. (Hayek, 1995) deals with the Hayek-Keynes 'clash' and reprints the relevant material from the 30's with an introduction by Caldwell. It should be read in conjunction with Hayek's work on business cycles and money which occupy volumes 5-8 (Hayek, 1999a; 1999b; 2012a; 2012b). Finally, the rest of the volume republish important texts by Hayek in philosophy, politics, social theory and the history of economic thought and show the breadth of his contributions in all these fields.

4. Concluding remarks

And with that Hayek's guns fell silent, for now. (Wapshott, 2011, 93)

Economics is a subject that the common reader finds interesting and important for good reason. At the same time, much of academic research is in a form that is not accessible to the public. This is because it has developed its own terminology, machinery and form of exposition that the non-specialist finds difficult to penetrate. And yet the common reader, in his demand for literature that fills this gap, has focused on something that is occasionally lost in academic study. This is the sharp focus of a grand narrative that inevitably glosses over details and technical argument, but tries to capture the undercurrents that shape our economic and social reality. This, I believe, explains the fascination and popularity of the Keynes vs. Hayek intellectual debate. The question that remains is whether exercises as the one attempted in this paper can add to the reader's experience, without alienating him, or making on him unreasonable demands.

By dividing up the texts into a narrative, conventionally constructed, and a discussion, which acts both as a bookshelf, and as a second voice, the reader is immediately introduced to multiple viewpoints. This second voice, a commentary on a narrative, adds detail, but also problematizes part of the narrative. This, I think, is this schemes' greatest strength. It does not let the reader leave the narrative satisfied that he knows all that there is to know of substance on this topic. It does not hide away in footnotes, endnotes or bibliographies this second text, but brings it forward signalling to the reader its importance.

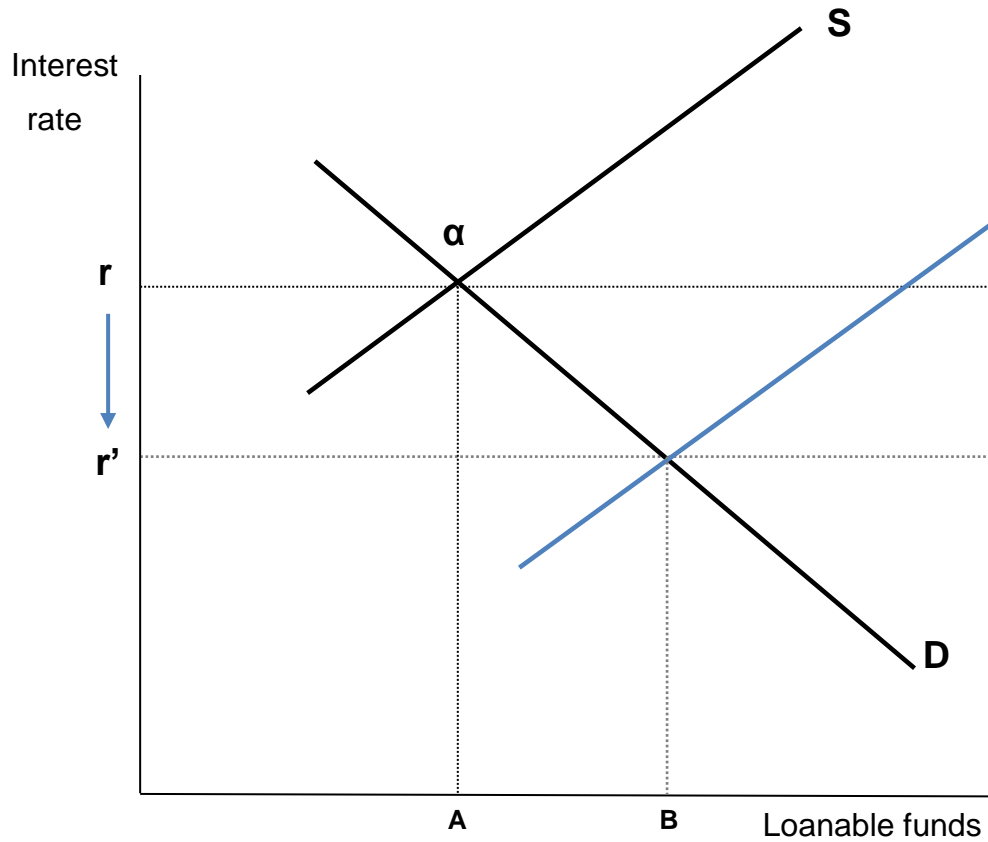
The reader is invited not only to read these two texts, but also to start exploring the references so that he can decide on these matters by himself. Inevitably, this exercise is successful when the reader, after a journey through primary and other texts, finds the simplicity and crassness of the first narrative close to offensive. At best he may come to agree with Robbins who, in the reading list he gave to students of his history of economic thought class, noted: "books about books are chiefly useful for those who know the books they are about" (Robbins, 2000, 337).

There are many questions to be answered and problems to be solved even if we agree with the general principles of this schema. Most importantly, how loaded should it be with references to primary and secondary texts? What are the dangers of this narrative becoming too heavy and technical so that the general reader finds himself again to be an outsider?

It can be argued that the commentary constructed in section three was too ambitious in detail and referencing. It created its own subtext without really clarifying what should be read and what not on a first attempt. Therefore, it simply shifted the problem from the main narrative to the commentary. This is, to some degree, unavoidable, as it is part of what the commentary is expected to do, which is to unearth questions silenced in the narrative. Furthermore, the personal style of the author, and the reader the author wants to approach will influence how he constructs this commentary. The common reader is a very wide concept, and includes people with different interests and abilities, so some selection may be unavoidable. Nevertheless, the guiding principle of this commentary should be that the reader realises the complexity of the material and is offered some help to deal with this.

The core question is whether these popularisations have an educational element or are here simply to entertain. If the point is only to entertain, then the *dramatis personae* are essentially irrelevant. The author may construct a gripping story around the clash of Hayek vs. Keynes, or Gore Vidal vs. Truman Capote, or even Paris Hilton vs. Kim Kardashian. These all have the ability to entertain. However, I do think that by choosing Hayek vs. Keynes the public is looking for something more. We ought to respect this wish. And we must find ways to address it appropriately.

AN AUTONOMOUS INCREASE IN SAVING



AN INCREASE IN THE SUPPLY OF MONEY

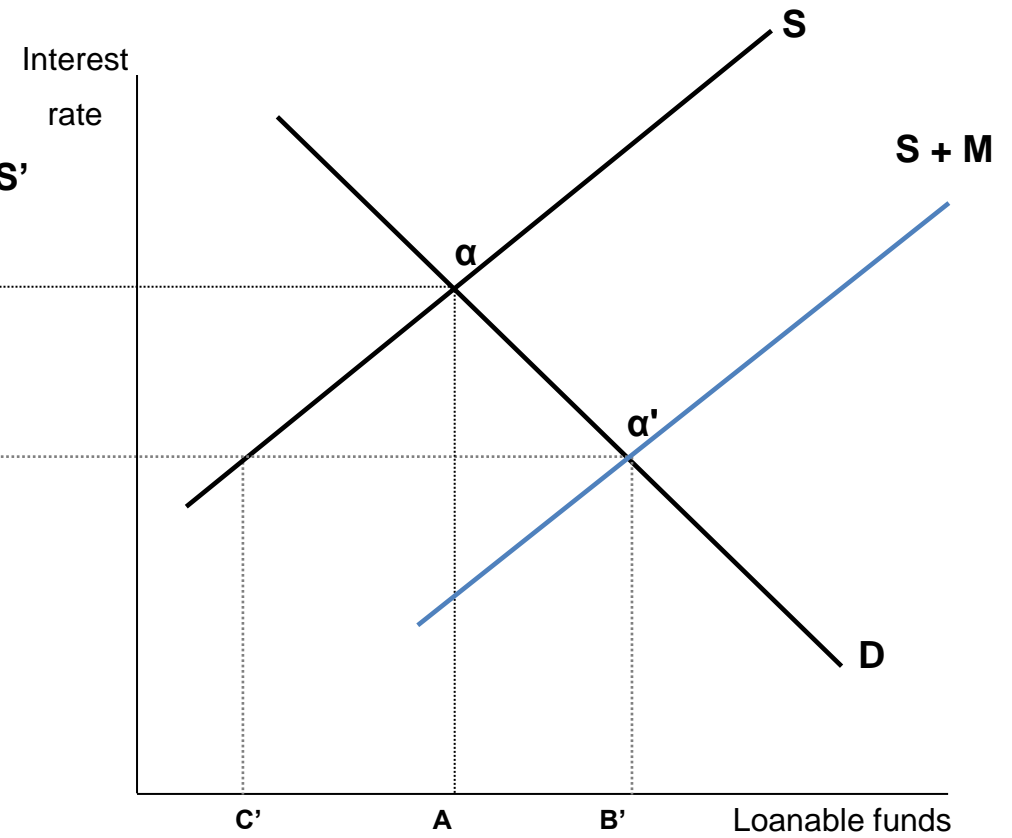


Figure 1

Source: Garrison Roger, *The Austrian Theory: A Summary* (1996), in *The Austrian Theory of the Trade Cycle* edited by M. Ebeling, Alabama: L.V. Mises Institute, p. 113

References:

- Altick, R.D. [1957] 1998. *The English Common Reader*. Columbus, Ohio State University Press
- Backhouse, R.E. & B.W. Bateman. 2006. *The Cambridge Companion to Keynes (Cambridge Companions to Philosophy)*. Cambridge, Cambridge University Press.
- Barnett, V. 2013. *John Maynard Keynes*. London, Routledge.
- Barry, N.P. 1979. *Hayek's Social and Economic Philosophy*. London, Macmillan.
- Baumol, W.J. 1968. Book review of *The Years of High Theory: Inventions and Tradition in Economic Thought 1926-1939*. By G.L.S. Shackle. *The American Economic Review*, vol. 58, no. 3, 565-566.
- Burgin, A. 2012. *The Great Persuasion. Reinventing Free Markets since the Depression*. Cambridge, Harvard University Press.
- Caldwell, B. 2004. *Hayek's Challenge*. Chicago, University of Chicago Press.
- Clarke, P. 4 February 2012. Keynes - Hayek by Nicholas Wapshott. *The Guardian*, Guardian review, 9.
- Cochran, J.P. 2011. Keynes Hayek: The Clash that Defined Modern Economics by Nicholas Wapshott. *Quarterly Journal of Austrian Economics*, vol. 14 no. 4, 474-9.
- Colonna, M. & H. Hagemann. 1994. *Money and Business Cycles*. Aldershot, Edward Elgar.
- Colonna, M., H. Hagemann & O. Hamouda. 1994. *Capitalism, Socialism and Knowledge*. Aldershot, Edward Elgar.
- Congdon, T. 29 February 2012. How Keynes overwhelmed Hayek. *Times Literary Supplement*.
- Cord, R. 2013. *Reinterpreting the Keynesian Revolution*. London, Routledge.
- Cornish, S. 2013. The Hayek Literature: Nicholas Wapshott's *Keynes Hayek: The Clash that Defined Modern Economics*. In *Hayek A Collaborative Biography. Part I Influences from Mises to Bartley*, ed. R. Leeson, 74-79. London, Macmillan.
- Davidson, P. [2007] 2009. *John Maynard Keynes*. Basingstoke Palgrave Macmillan
- Davidson, S. 2012. Keynes Hayek: The Clash that Defined Modern Economics By Nicholas Wapshott. *Policy*, vol. 28, no. 2, 63-4.
- Ebeling, R.M. 1996. *The Austrian Theory of the Trade Cycle*. Auburn, Alabama, Ludwig Von Mises Institute.
- Ebenstein, A. 2001. *Friedrich Hayek. A Biography*. New York, Palgrave.
- Ebenstein, A. 2003. *Hayek's Journey*. New York, Macmillan.
- Gali, J. 2008. *Monetary Policy, Inflation, and the Business Cycle: An Introduction to the New Keynesian Framework*. Princeton, Princeton University Press.
- Garrison, R.W. 2001. *Time and Money*. London, Routledge.
- Harcourt, G.C. 2006. *The Structure of Post-Keynesian Economics*. Cambridge, CUP.
- Harcourt, G.C. 2012. *On Skidelsky's Keynes and Other Essays: Selected Essays of G. C. Harcourt* London, Palgrave Macmillan.
- Harcourt, G.C. & S. Turnell. 2005. On Skidelsky's Keynes. *Economic and Political Weekly*, vol. 40, no. 47, 4931-4946.
- Harrod, R. [1951] 1963. *The Life of John Maynard Keynes*. London, Macmillan.
- Harrod, R.F. 1968. Book review of *The Years of High Theory. Invention and Tradition in Economic Thought 1926-1939*. By G.L.S. Shackle. *The Economic Journal*, vol. 78, no. 311, 660-664.
- Hayek, F.A. 1944. *The Road to Serfdom*. London.
- Hayek, F.A. 1988. *The Fatal Conceit: The Errors of Socialism. Volume 1 of the Collected Works of F.A. Hayek*. Chicago, Chicago University Press.
- Hayek, F.A. 1991. *The Trend of Economic Thinking. Volume 3 of the Collected Works of F.A. Hayek*. Chicago, Chicago University Press.
- Hayek, F.A. 1992. *The Fortunes of Liberalism. Volume 4 of the Collected Works of F.A. Hayek*. Chicago, Chicago University Press.
- Hayek, F.A. 1994. *Hayek on Hayek*. London, Routledge.
- Hayek, F.A. 1995. *Contra Keynes and Cambridge. Volume 9 of the Collected Works of F.A. Hayek*. Chicago, Chicago University Press.
- Hayek, F.A. 1997. *Socialism and War. Volume 10 of the Collected Works of F.A. Hayek*. Chicago, Chicago University Press.
- Hayek, F.A. 1999a. *Good Money. Part I. Volume 5 of the Collected Works of F.A. Hayek*. Chicago, Chicago University Press.

- Hayek, F.A. 1999b. *Good Money. Part II. Volume 6 of the Collected Works of F.A. Hayek.* Chicago, Chicago University Press.
- Hayek, F.A. 2007a. *The Pure Theory of Capital. Volume 12 of the Collected Works of F.A. Hayek.* Chicago, Chicago University Press.
- Hayek, F.A. 2007b. *The Road to Serfdom. Volume 2 of the Collected Works of F.A. Hayek.* Chicago, Chicago University Press.
- Hayek, F.A. 2010. *Studies on the Abuse and Decline of Reason. Volume 13 of the Collected Works of F.A. Hayek.* Chicago, Chicago University Press.
- Hayek, F.A. 2011. *The constitution of Liberty. The Definitive Edition. Volume 17 of the Collected Works of F.A. Hayek.* Chicago, Chicago University Press.
- Hayek, F.A. 2012a. *Business Cycles. Part I. Volume 7 of the Collected Works of F.A. Hayek.* Chicago, Chicago University Press.
- Hayek, F.A. 2012b. *Business Cycles. Part II. Volume 8 of the Collected Works of F.A. Hayek.* Chicago, Chicago University Press.
- Hayek, F.A. [1931] 1935. *Prices and Production.* London, Routledge.
- Hession, C. 1984. *John Maynard Keynes: a personal biography of the man who revolutionized capitalism and the way we live.* New York, Macmillan.
- Hoover, K.R. 2003. *Economics as ideology : Keynes, Laski, Hayek, and the creation of contemporary politics.* Oxford, Rowman & Littlefield
- Howson, S. 2011. *Lionel Robbins.* Cambridge, CUP.
- Howson, S. July 2012. The Uses of Biography and the History of Economics. In *25th Jubilee conference of the History of Economic Thought Society of Australia.* Melbourne.
- Johnson, S. 1866. *Lives of English Poets Vol. II.* Philadelphia J.B. Lippincott & Co.
- Jones, D.S. 2012. *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics* Princeton, New Jersey, Princeton University Press.
- Keynes, J.M. 1919. *The economic consequences of the peace.* London, Macmillan
- Keynes, J.M. 1926. *The End of Laissez-faire.* London, The Hogarth Press
- Keynes, J.M. [1936] 1973. *The General Theory of Employment, Interest, and Money. Volume VII of The Collected Writings of John Maynard Keynes.* London, Macmillan.
- Keynes, J.M. [1971-1989] 2012. *The Collected Writings of John Maynard Keynes. 30 Volumes.* London, Macmillan.
- Keynes, J.M. [1977] 2012. *The Collected Writings of John Maynard Keynes: Volume XVII.* London, Macmillan (reprint of 2012 Cambridge University Press).
- Keynes, J.M. [1982] 2012. *Activities 1931-1939: World Crises and Policies in Britain and America. Volume XXI of the Collected Writings of John Maynard Keynes.* London, Macmillan (reprinted by Cambridge University Press in paperback)
- Kirzner, I.M. [2000] 2006. *The Driving Force of the Market: Essays in Austrian Economics.* Abingdon, Routledge.
- Koehn, N.F. 23 October 2011. The Tale of the Dueling Economists. *The New York Times (New York edition)*, BU 8.
- Laidler, D. 1999. *Fabricating the Keynesian Revolution.* Cambridge, Cambridge University Press.
- Lavoie, M. [2007 [2009]. *Introduction to Post-Keynesian Economics.* Basingstoke, Palgrave Macmillan.
- Moggridge, D. [1973] 1993 *Keynes.* London, Fontana/Collins.
- Moggridge, D. [1992] 1995. *Maynard Keynes: An Economists Biography.* London, Routledge.
- O'Driscoll, G.P. & M.J. Rizzo. [1985] 1996. *The Economics of Time and Ignorance.* London, Routledge.
- Patrick, M. 2012. Nicholas Wapshott, Keynes Hayek: The Clash That Defined Modern Economics. *Journal of Value Inquiry*, vol. 46, no. 1, 97-102.
- Robbins, L. 1934. *The Great Depression.* New York, Macmillan.
- Robbins, L. 2000. *A History of Economic Thought.* Princeton, Princeton University Press.
- Robinson, A. 1947. John Maynard Keynes 1883-1946. *The Economic Journal*, vol. 57, no. 225, 1-68.
- Ruhl, C. 1994. The Transformation of business cycle theory: Hayek, Lucas and a change in the notion of equilibrium. In *Money and Business Cycles*, eds. M. Colonna & H. Hagemann. Aldershot, Edward Elgar.
- Shackle, G.L.S. 1967. *The Years of High Theory. Invention and Tradition in Economic Thought 1926-1939.* London, Cambridge University Press.

- Shackle, G.L.S. [1981] 1983. F.A. Hayek, 1899-. In *Pioneers of Modern Economics in Britain*, eds. D.P. O'Brien & J.R. Presley, 234-261. London, Macmillan.
- Skidelsky, R. 2004. *John Maynard Keynes 1883-1946 : economist, philosopher, statesman*. London, Macmillan.
- Skidelsky, R. 2006. Hayek versus Keynes: The road to reconciliation In *The Cambridge Companion to Hayek*, ed. E. Feser. Cambridge, Cambridge University Press.
- Skidelsky, R. 2010. *Keynes: A Very Short Introduction*. Oxford, Oxford University Press.
- Skidelsky, R. 2013. Book review of *Keynes Hayek: The Clash that Defined Modern Economics*. By Nicholas Wapshott. *Historian*, vol. 75, no. 1, 218-9.
- Skidelsky, R. [1983] 1992. *John Maynard Keynes : Hopes Betrayed 1883-1920* London, Macmillan
- Skidelsky, R. [1992] 1994. *John Maynard Keynes : The economist as Saviour 1920-1937*. London, Macmillan.
- Skidelsky, R. [2000] 2001. *John Maynard Keynes: Fighting for Britain 1937-1946*. London, Macmillan.
- Skousen, M. 2005. *Vienna and Chicago. Friends or Foes?* Washington DC, Capital Press.
- Steele, G.R. 2012. Book review of *Keynes Hayek: The Clash That Defined Modern Economics* by Nicholas Wapshott *Economic Affairs*, vol. 32, no. 3, 118-9.
- Tankersley, W. 2012. Clash of the Economic Titans. *Public Administration Review*, vol. 72, no. 3, 469-471.
- Vaughn, K.I. [1994] 1998. *Austrian Economics in America*. Cambridge, CUP.
- Wapshott, N. 2011. *Keynes Hayek: The Clash That Defined Modern Economics*. New York, W.W. Norton and Company.
- White, L.H. 2012. *The Clash of Economic Ideas*. Cambridge, Cambridge University Press.
- Winch, D. 1969. *Economics and Policy. A Historical Study*. London, Hodder and Stoughton.
- Yergin, D. & J. Stanislaw. 2002. *The Commanding Heights: The Battle for the World Economy*. London, Simon & Schuster.
- Zijp, R. 1992. *Austrian and New Classical, Business Cycle Theories*. Amsterdam, Thesis Publishers.