

Economic and Political Freedom

A Note on Keynes' Liberalism and the Social Philosophy of *The General Theory*

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Abstract: *The General Theory* (GT) was fundamentally a theoretical treatise written by John Maynard Keynes for the benefit of his fellow economists, as he explicitly stated. Most of the policy arguments associated with Keynesianism had been developed before the theory contained in that book. However, in the final chapter of the GT Keynes tried to rationalize the importance of his new theory, founded on the principle of effective demand, for the policies he had been defending since the 1920s, and for dealing with the two main problems of society that, in his view, were unemployment and and inequitable distribution of income and wealth. His defense of government intervention would not, he argued, come at the expense of individual freedom. In other places, he referred to his political philosophy as liberal socialism. Contrary to some mainstream economists that assumed that economic freedom, essentially *laissez-faire*, was necessary for political freedom, some form of liberal democracy, in which individual freedom was central, Keynes believed that economic security, understood as a mix of full employment and some degree of income and wealth redistribution, was central for political freedom. This paper discusses how the theory developed in the book was instrumental for Keynes' argument.

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Keynesianism is polysemic, suggesting a socialist ideology, favoring state intervention over market freedom, for those on the right of the political spectrum, and a somewhat devious strategy of containment or of appeasement, precluding revolutionary change, and for the preservation of the *status quo*, for those on the extreme left of the scale. Monetarists come in one flavor, for the most part, but Keynesians are multitudes. There are many Keynesian schools, to the point that being a non-hyphenated Keynesian, as James Tobin claimed to be in the 1990s, was somewhat uplifting and surprising epithet for an ideology that had lost its clout.

Most of the debates regarding Keynes' view are ultimately connected to the ideas of his *magnus opus*, *The General Theory of Employment, Interest and Prices* (GT from now on), published 90 years ago, and are about theoretical problems, not practical policy matters, in spite the common misconception that Keynes wrote the book to influence economic policy. The book was an assault on Say's Law, and it remains relevant for its main contribution, the Principle of Effective Demand.

But a neglected part of the book – in part associated to the confusion that Keynes is often seen as either a radical socialist or as a shrewd conservative – is the social philosophy that upholds the kind of liberalism to which he subscribed. Liberalism for Keynes had a concern with individual freedom, both economic and political. But contrary to some contemporaries – Friedrich Hayek would come to mind in this context – he did not prioritize economic freedom, or laissez-faire capitalism, over political freedom. In fact, it can be said that for him, economic security associated with low unemployment, and high levels of economic growth – which he associated with a moderately equitable income distribution – were central for the defense of liberal societies that protected the political and social freedoms that he cherished.

The rest of the paper is divided in three sections discussing Keynes' moderate approach to politics, based on his liberal convictions, and pragmatic approach to economic policy, the connection of his particular brand of liberalism with the broader currents within liberalism, and finally the connection of his political views with the social philosophy of the GT, as discussed in the book itself.

Keynes' Politics and Economics

It is important to note that even ninety years after the publication of the GT, Keynes' legacy is still somewhat controversial and misunderstood. This in part derives because of the difficult relationship between theory, policy advice, and Keynes' own ideological stance, his vision, that permeated both his analytical perspective and his policy choices. Biographers and scholars have painted conflicting portraits of Keynes. Roy Harrod's (1951) early biography is criticized for being hagiographic, while Robert Skidelsky's (2000) more nuanced work is itself seen by some, including

Rod O'Donnell, (1989) as misleading about Keynes's ethical commitments. On one side, neoliberals viewed Keynesianism as a gateway to totalitarianism; on the other, radicals accused him of preserving capitalism. However, scholars like James Crotty (2019) have argued Keynes was a "liberal socialist," motivated by a desire to replace, not merely reform, capitalism.

In this work, I build on my own interpretation of Keynes as a pragmatic liberal, whose policy advice was shaped, pragmatically, to avoid Soviet style socialism, and to preserve some type of liberal capitalism, while leading him, eventually, to a theoretical break with the mainstream (Vernengo, 2023).

Keynes's policy stances evolved during the 1920s in response to the decline of British economic dominance and interwar instability. He became critical of *laissez-faire* economics, in particular the automatic functioning of the Gold Standard, and advocating for public works before fully developing his revolutionary theory. Despite these radical shifts in policy recommendations, Keynes did not abandon his liberal convictions, or his participation in Liberal Party politics (Clarke, 1988). Instead, he distanced himself from the rigid economic orthodoxy of both the Conservative and Labour parties, positioning himself closer to the New Liberalism of H.H. Asquith and Lloyd George, that as he noted, was more flexible and capable to accept unorthodox policy advice.

His rejection of the Gold Standard, sympathy for labor causes, in particular the 1926 coal miners' strike, and his early support for public investment programs illustrate this pragmatic policy shift. Still, Keynes remained anchored in a form of Cambridge marginalist economics, believing in market failures – a term that was not invented until the 1950s – and the legitimacy of government intervention. But he remained refractory when it came to acknowledge class conflict (Palley, 2023), let alone advocate for Soviet style central planning, and public ownership of production, both staples of socialist thought.

His *Treatise on Money* (TM from now on) – which was supposed to be the culmination of his efforts to extend Marshallian monetary thinking – I still adhered to many marginalist or neoclassical principles. He adheres to the belief in a natural interest rate, similar to Knut Wicksell's work, and the assumption that markets would eventually equilibrate investment to the level of full employment savings. In other words, it remained in the world of Say's law. The GT rejected these assumptions. Instead, Keynes introduced the concept of effective demand, arguing that unemployment could persist in equilibrium due to insufficient aggregate demand. Keynes's theoretical transformation that culminated with the GT, started from the orthodox critiques of his TM at Cambridge, were Arthur Cecil Pigou and Ralph Hawtrey, first noticed the inconsistencies in

his work, and then, the group of young economists associated with the so-called Circus pointed out the direction of a solution.¹

This was a fundamental departure from neoclassical economics. Keynes argued that the economic system had no inherent mechanism to ensure full employment, even in the long run. He disputed Say's Law and reframed investment and savings as driven by income adjustments rather than interest rate changes. This conceptual leap placed him, along with contemporaries like Michal Kalecki, even if Keynes for the most part ignored his contributions, at the center of a new macroeconomic paradigm.

While Keynes's economic theories were revolutionary, his political stance remained moderate and grounded in liberalism. He did not join the Labour Party, which he saw as too ideologically rigid and class based (Clarke, 1998). Although he often proposed policies that aligned with or even exceeded Labour's ambitions (such as public investment, which would involve some degree of economic planning), Keynes resisted full-scale socialism. He was critical of Soviet-style central planning, revolutionary politics, and collectivist doctrines. Keynes's elitist upbringing, education at Eton and Cambridge, and affiliations with the Bloomsbury Group and the Liberal Party shaped his belief that enlightened elites could guide policy through reason and scientific analysis. His preference for the educated *bourgeoisie* over class-based politics further cemented his liberal identity.

Nonetheless, Keynes did advocate for more state control over investment, challenging both the left and right orthodoxy about economic governance. Keynes's revolutionary theoretical contributions were later diluted by the Neoclassical Synthesis, which absorbed his ideas into mainstream economics by attributing unemployment to market imperfections like wage rigidity. While this allowed for policy continuity within existing frameworks, it also stripped away the more radical implications of his work. Keynes himself remained skeptical of rigid economic doctrines and preferred practical experimentation. His ultimate political project was to safeguard capitalist democracy through reform and planning, not to overthrow it.

Keynes's letter to Hayek about *The Road to Serfdom* reveals his belief in a pragmatic middle course. While he acknowledged the risks of excessive planning, he rejected the idea that any intervention leads inevitably to tyranny. For Keynes, drawing the line between markets and the state was a matter of judgment, not ideology. Keynes was not a socialist in the traditional sense. He opposed Marxist class analysis, or even classical political economy in the Ricardian mold, abhorred revolutionary upheaval, centralized planning, and public ownership of production. His political philosophy was rooted in New Liberalism, a tradition that emphasized

¹ On the influence of Pigou see Milgate (1983). On the role of Kahn's multiplier and the Circus group – that included Richard Kahn, James Meade, Austin and Joan Robinson, and Piero Sraffa – see Patinkin (1994). See, also, Vernengo (2023).

moral reform, pragmatism, and the preservation of a *bourgeois* democratic order, which was perfectly compatible with mainstream neoclassical principles.

While he advocated transformative economic policies, these were aimed at stabilizing and improving capitalism, not replacing it. The confusion about Keynes's political identity arises in part from the later adoption of his policies by socialists, who came to embrace Keynesianism even if Keynes himself never embraced socialism. In sum, Keynes was a revolutionary in economic theory, a pragmatist in policy, and a liberal in politics.

Keynes and Alternative Liberal Traditions

There is a large and rich literature on the crisis of liberalism in the twentieth century. The limits of Cold War liberalism have been analyzed in detail by several authors (e.g. Moyn, 2023). Most, if not all, of these accounts, presume that there is a unique liberal tradition, even if there is significant fragmentation between authors of the liberal thought collective, to use the term that Philip Mirowsky (2014) used for a subgroup of liberalism, neoliberalism. However, it is unclear that Keynes can be seen in the same tradition as other so-called classical liberals of his time.²

To simplify significantly, we can identify at least two distinct traditions within liberal thought. These broadly correspond to what sociologist Randall Collins (1994) termed the conflict tradition and the utilitarian or rational choice tradition in the social sciences.

The conflict tradition finds its origins in the work of William Petty, and then continues through Richard Cantillon and François Quesnay, culminating in the great synthesis of Adam Smith in *The Wealth of Nations* (Aspromourgos, 1995).³ This tradition was then carried forward by David Ricardo and, with a socialist inflection, by Karl Marx. The class conflict tradition is concerned with the material reproduction of society. Its core notion is that economic systems must generate a surplus beyond what is needed for the subsistence of the working class, and for accumulation at the hands of the rising *bourgeoisie*. The unit of analysis is class, and the focus of the theoretical construct is on how the distribution of income and wealth puts different social classes into conflict and affects the process of accumulation.

² Evidently, he clearly disagreed from Friedrich Hayek, as he made clear in his letter regarding the latter's book *The Road to Serfdom*. For some discussion of their disagreement see Vernengo (2023).

³ Adam Smith is not the precursor of modern economics, since the latter is a departure from classical political economy. Classical political economy and marginalist economics are at odds when it comes to the theory of value and distribution (Bharadwaj, 1976). There is little doubt that Smith is the philosopher of economic liberty, and of laissez-faire capitalism. In some broad sense, defenders of laissez-faire capitalism to this day may be seen as followers of Smith, even if they do not use the analytical framework of classical political economy. These authors discard the economics of Adam Smith in order to promote his philosophical defense of laissez-faire or liberal capitalism.

The alternative liberal tradition, which also emerges in 18th century with figures like Cesare Beccaria, flows into the work of Jeremy Bentham. Bentham stands as a counterpoint to Adam Smith, as the key author from which alternative traditions emerge. This line of thought continues through James Mill and his son John Stuart Mill – a proto marginalist author – and eventually into marginalism. The usual names associated with marginalism – Stanley Jevons, Léon Walras, and Carl Menger – can be included, but arguably Alfred Marshall is the dominant figure consolidating this tradition.

Both traditions are liberal in the broad sense; they emphasize economic freedom and often advocate for limited government intervention. But they diverge sharply in their theoretical foundations. The Bentham-Mill-Marshall line, borrowing Joseph Schumpeter's terminology, is grounded in *methodological individualism*. It is utilitarian, focused on maximizing pleasure and minimizing pain, and it emphasizes individual rational choice.⁴ This contrasts with the Petty–Quesnay–Smith–Ricardo–Marx tradition, which centers on conflict and material reproduction.⁵

Keynes occupies a peculiar position between these two liberal traditions. He was certainly influenced by Alfred Marshall – his teacher, Arthur Cecil Pigou, who, as Steven Medema (2009) has noted, was concerned with market imperfections, though he didn't use that exact term, was clearly in the utilitarian/rational choice tradition in social sciences. The idea of externalities, which comes from Marshall, framed Pigou's thinking about how limited government intervention might be justified to overcome market imperfections. But this tradition saw markets as allocators of resources and generally leading to efficient outcomes, with exceptions due to identifiable imperfections that could be addressed, mostly through taxation and subsidies.

That was not the view of the older classical political economy or conflict tradition. Even though Smith and Ricardo were also liberals in the sense of advocating limited government, they did so not because they believed markets were inherently efficient, but because they saw mercantilist policies – a term introduced by Smith – as impediments to capital accumulation and growth.⁶ In other words, for them, the push for liberalism in policy came from historical analysis and concern with economic development, not from assumptions about market efficiency.

⁴ On this, Murray Milgate and Shannon Stimson (2009: 6) suggest that: "Bentham's utilitarian calculator, modified (perhaps) by some of Mill's later moral embellishments, became in the hands of the neoclassical writers of the 1870s not only the accepted view of the personality of economic man but also the model of man from which to deduce the very laws governing market exchange and the distribution of income. Self-interested action, now thought of as constrained optimisation, was to become not only a component part of economic life in civil society but rather its only component."

⁵ In that respect, as noted by Milgate and Stimson (2009) it is important to note that neither Smith, nor Ricardo exposed utilitarian principles – in particular the latter who is often misrepresented in this particular sense.

⁶ The liberalism of the classical authors was based on the notion that the rising bourgeoisie had a revolutionary role, something noted by Marx and Engels in the *Communist Manifesto*, and was a reaction against Mercantilism and the remnants of the Ancien Régime. Marx noted in *The Poverty of Philosophy* that: "The Classics, like Adam Smith and

Importantly, there's no analytical requirement in classical political economy – Smith included – that the labor force be fully employed. Starting with James Mill and Ricardo, in the British tradition, there is an assumption that capital – the means of production – will be fully utilized, and that assumption rests on Say's Law.⁷ That was based on the work by Jean Baptiste Say, and author that might be more properly be seen as part of the utilitarian/rational choice tradition, and would be the senior Mill. However, Say's Law is compatible with both traditions of social sciences.

This is where Keynes makes his critical intervention. As he makes clear in the GT, he distinguishes between classical and neoclassical authors – using the hyphenated neo-classical (CWJMK, vol VII: 177). In neoclassical theory, savings and investment are equilibrated through the interest rate; the natural rate of interest ensures investment matches full capacity and employment savings. That is not so in classical political economy, where Say's Law is more an assumption than a mechanism.⁸ Keynes critiques Say's Law directly, and arguably that is the radical theoretical component of the GT. He shows that investment does not necessarily adjust to full capacity savings and that the mechanism supposed to link the two – the natural interest rate – must be abandoned (CWJMK, vol. VII: 243). While Keynes' break with marginalism was incomplete, and classical authors in general – the exception would be Marx, that can be seen as a follower of classical authors in other respects – accepted a version of Say's Law (one that allowed for unemployment), Keynes, like the authors in the Smith-Ricardo-Marx tradition, argues that the market system does not automatically promote the efficient allocation of resources.

In this sense, his liberalism can be seen to align more with the classical conflict tradition than with the utilitarian rational choice tradition, even if his political views were to a great extent aligned against working class interests. Keynes did support limited government intervention – meaning he was against both state direct involvement in production or Soviet-style planning— but his justification for intervention was fundamentally different than the one from his teachers. It was not the case that markets were imperfect and needed correcting in the short run. Rather, he argued that markets do not, on their own, generate optimal outcomes.

Drawing from the historical insights of institutionalist John R. Commons, Keynes recognized that Victorian-era capitalism, with elite luxury consumption, had given way to a system

Ricardo, represent a bourgeoisie which, while still struggling with the relics of feudal society, works only to purge economic relations of feudal taints, to increase the productive forces and to give an [sic] new upsurge to industry and commerce" (1847: 118). To some extent one can see how the laissez-faire principles come, not from a notion that markets produce optimal outcomes (nor the conventional and misguided notion of the invisible hand), but from a need to eliminate the regulatory remnants of the feudal society.

⁷ Aspromourgos (2009: 195) notes that Smith's lacks any theory of the level of activity, and proceeds as if savings and investment are identical.

⁸ Keynes argues that: "Unlike the neo-classical school, who believe that saving and investment can be actually unequal, the classical school proper has accepted the view that they are equal" (CWJMK, vol. VII: 177).

of mass consumption and widespread debt.⁹ This debt relations introduced new forms of economic instability. Under such conditions, he argued, government intervention was necessary to preserve capitalism itself. The stability of the system depended on social norms, that in his theory affected, arguably, more creditors and debtors, rather than workers and capitalists per se, the market rather than produce optimal outcomes, was embedded in these institutional arrangements that had been upset during the inter-war crisis.

The Social Liberalism of the GT

Central to my argument is that, at least on some level, Keynes represents a clear return to the classical political economy tradition of social conflict. In the notes on the social philosophy of his own work, *The General Theory*, Keynes writes: “The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes” (CWJMK, vol VII: 372). It is clear that Keynes – who, as Gerald Shove famously remarked, did not spend the five minutes necessary to learn the theory of value (Robinson 1962) – had an incomplete break with marginalism. Consequently, his understanding of the fundamental causes of inequality remained, to some extent, tied to the conventional views of his teachers.

On the other hand, his rejection of Say’s Law brings him closer to classical political economy. His perspective suggests that markets do not produce optimal outcomes and that the market mechanism should not be viewed merely as an allocator of resources. Instead, the market acts as a mechanism that guarantees – through a process of conflict – the shares that different social groups require to survive and accumulate. This connects his work to a specific liberal tradition of distributive struggle.

The importance of this connection is evident in another quote from the final chapter of GT. Keynes argues that his theory leads to the conclusion that: “...in contemporary conditions the growth of wealth, so far from being dependent on the abstinence of the rich, as is commonly supposed, is more likely to be impeded by it” (CWJMK, vol. VII: 373). Here, the argument centers on the effects of income and wealth distribution on economic growth. Because the wealthy consume less (their propensity to consume is lower), one of the chief social justifications for the concentration of wealth is removed. While Keynes admitted there might be other reasons to justify some measure of inequality in specific circumstances, his theory disposed of the most significant reasons why economists previously thought it prudent to move carefully regarding redistribution.

⁹ On the influence of Commons on Keynes see Crotty (2019).

The point is that if one complements Keynes's arguments with classical political economy views on distribution – where income distribution is determined by social conflict and class warfare – Keynes' social philosophy is actually strengthened. Both perspectives move in the same direction.

However, Keynes remains essentially a liberal. He is not only a proponent of political liberties, but he is also attempting to save a specific type of bourgeois liberal capitalism represented by the England of his time. He explicitly describes his theory as “moderately conservative,” by which he means it is reformist rather than radical or revolutionary; he further argues that: “The foregoing theory is moderately conservative in its implications; for whilst it indicates the vital importance of establishing certain central controls in matters which are now left in the main to individual initiative, there are wide fields of activity which are unaffected” (CWJMK, vol. VII: 377-378). He argues that the state must exercise a guiding influence on the propensity to consume through taxation and interest rates, but he makes no case for state socialism or the ownership of the instruments of production. It is a reformist program based on the management of aggregate demand, a pragmatic liberal program.

In similar fashion to the work of David Lay Williams (2025), particularly the chapters on Smith and Marx, there is a deep concern in Keynes with the social effects of inequality, particularly through its effect on debt and consumption, on the level of economic activity and growth. Keynes feared that the gains obtained in liberal *bourgeois* societies might be lost to rising inequality, which could drive the working class toward revolutionary action. He clearly had in mind the Soviet experiment, which was incredibly influential in England at the time, particularly among a youth increasingly drawn to Marxist conceptions that Keynes firmly opposed.

In essence, Keynes argues that to maintain political and economic freedoms—where individual initiative still plays a significant role—a certain degree of equality and government intervention is necessary to guarantee full employment. This intervention is required to avoid the destabilizing political effects of inequality and unemployment, which he saw as the central problems of his era. In this regard, he reverses the relationship between economic and political liberty implicit in the rational choice and utilitarian perspectives of liberals like Milton Friedman and Friedrich Hayek. While Friedman (in *Capitalism and Freedom*) and Hayek (in *The Road to Serfdom*) argue that laissez-faire market economies are a precondition for political freedom, Keynes suggests the opposite: that the taming of inequality and the maintenance of economic security are the essential preconditions for political freedom.¹⁰

¹⁰ In *Capitalism and Freedom* (Friedman, 1962) crucial chapter on the relation between economic and political freedom, the only intellectual forebear cited is Jeremy Bentham. Without capitalism, interpreted as the “free market” there would be no political freedom.

Concluding Remarks

The true significance of Keynes' *General Theory* lies not in the practical policy advice – which was often pragmatic and evolving – but in the theoretical contribution and the underlying social philosophy that frames Keynes' brand of liberalism. Unlike contemporaries such as Hayek, Keynes did not prioritize *laissez-faire* as a prerequisite for political liberty; instead, he argued that economic security, full employment, and a moderately equitable distribution of income were the essential foundations for protecting democratic freedoms.

Keynes's rejection of Say's Law and his view of markets are not allocators of resources align him more closely with the conflict tradition of classical political economy (Smith-Ricardo-Marx) than with the utilitarian tradition of marginalism (Bentham-Mill-Marshall), even as he remained a reformist committed to saving liberal capitalism.

Keynes was a figure of remarkable intellectual complexity: a revolutionary in economic theory, a pragmatist in policy, and a moderate liberal in politics. His ultimate project was not to overthrow capitalism but to stabilize it, using state intervention to tame the instabilities of mass consumption and debt that threatened the social order. By reversing the traditional liberal hierarchy and treating economic security as a precondition for political freedom, Keynesian social philosophy remains a potent critique of modern *laissez-faire* doctrines. Strengthening this framework with classical insights into social conflict confirms that for Keynes, the management of aggregate demand was never just a technical exercise, but a vital defensive strategy for the survival of liberal civilization.

References