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John Maynard Keynes v. Friedrich August Hayek - III

Lead: John Maynard Keynes and Friedrich August Hayek are often arrayed at either end of a vast intellectual divide, but in reality they had virtual agreement on a remarkable range of economic theories.

Intro.: ***A Moment in Time*** **with Dan Roberts.**

Content: Despite the near adoration with which Hayek is held in conservative and libertarian circles, he was no lover of laissez-faire economics or advocate of an indolent or passive

state, an idea much associated with 19th century classical liberalism. Recognizing that modern economies and societies had irrevocably reached a mixed solution to the marketplace that required state participation and state/private collaboration, he once argued against the idea that the state should be inert. He said, "In no system that could be rationally defended would the state just do nothing." In fact, he understood that the government would play a role in the economy by providing those services that the free market could not create by itself. Hayek allowed the government to regulate safe working conditions, prevent pollution and fraud, and create a safety net in which

citizens receive minimal food, shelter, and clothing.

Keynes and Hayek agreed on a wide variety of matters. Keynes was an academic but also an investor and literary entrepreneur. He therefore sought the smooth prosperous operation of the marketplace and was in general sympathy with the growing consensus in the industrial West that the state had a role to play in the marketplace providing healthcare, old age pensions and the salutary supervision of the marketplace to keep commerce clean. Hayek didn't oppose these state/private collaborations in theory, but believed that society should always put restraints on the work of the state, warning against too much

government in that it led to an abridgement of individual freedom.

They disagreed most strongly on monetary management in a time of crisis. Hayek believed that during a period of economic contraction the market could adjust smoothly without intervention. It should be left alone and the state should balance the budget. Keynes believed that only the state engaged in credit creation through the central bank and fiscal deficit spending by the government could get the economy out of the doldrums. In the years since, Keynesian economic policy has largely proven to have the upper hand among leading policy makers, even conservative ones, particularly during

recessions. Next time: the political and academic legacy of Hayek and Keynes.

From Richmond Virginia, this is Dan Roberts.

<u>**Resources**</u>

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