

PRIMARY & SECONDARY SOURCES**Reading 20****K** EYNES ON GOVERNMENT INVOLVEMENT

*John Maynard Keynes was well aware that his theories advancing a more active role of government in the economy were radical. In the excerpt from his classic *General Theory of Employment, Interest and Money*, published in 1936, Keynes emphasizes that government activities in economic life should not supplant individual initiative and decision making. As you read the excerpt, think about the worldwide influence his words held for decades. Then answer the questions that follow.*

[M]y theory is moderately conservative in its implications. For whilst it indicates the vital importance of establishing certain central [governmental] controls in matters which are now left in the main to individual initiative, there are wide fields of activity that are unaffected. The State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways. Furthermore, it seems unlikely that the influence of banking policy on the rate of interest will be sufficient by itself to determine an optimum rate of investment. I conceive, therefore, that a somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment; though this need not exclude all manner of compromises and of devices by which public authority will cooperate with private initiative. But beyond this no obvious case is made out for a case of State Socialism which would embrace most of the economic life of the community. . . .

Our criticism of the accepted classical theory of economics has consisted not so much in finding logical flaws in its analysis as in pointing out that its tacit assumptions are seldom or never satisfied, with the result that it cannot solve the economic problems of the actual world. But if our central government controls succeed in establishing an aggregate volume of output corresponding to full employment as nearly as is practicable, the classical theory comes into its own again from this point onwards. . . . Thus, apart from the necessity of central controls to bring about an adjustment between the propensity to consume and the inducement to invest, there is no more reason to socialize economic life than there was before.

Whilst . . . the enlargements of the functions of government . . . involved in the task of adjusting to one another the propensity to consume and the inducement to invest . . . would seem to [some] to be a terrific

encroachment on individualism, I defend it, on the contrary, both as the only practicable means of avoiding the destruction of existing economic forms in their entirety and as the condition of the successful functioning of individual initiative.

**It is certain that the world will not
much longer tolerate the
unemployment which . . . is
associated and, in my opinion,
inevitably associated—with present-
day capitalistic individualism.**

For if effective demand is deficient, not only is the public scandal of wasted resources intolerable, but the individual enterpriser who seeks to bring these resources into action is operating with the odds loaded against him. . . .

The authoritarian state systems of today seem to evolve [avoid] the problem of unemployment at the expense of efficiency and of freedom. It is certain that the world will not much longer tolerate the unemployment which . . . is associated and, in my opinion, inevitably associated—with present-day capitalistic individualism. But it may be possible by right analysis of the problem to cure the disease whilst preserving efficiency and freedom.

Keynes, John Maynard. *The General Theory of Employment, Interest and Money*. Harcourt Brace & Company, 1936.

PRIMARY & SECONDARY SOURCES (continued) **Reading 20**

ANALYZING THE READING

1. What is Keynes's main point?

2. What government influences in the economy does Keynes identify as necessary?

3. Why does Keynes think that the enlargement of government functions is necessary for the successful functioning of individual liberty?

4. Reread the last paragraph. How does Keynes walk a middle ground between pure socialism and pure capitalism?

5. Do you think that some government participation in the economy is necessary for individuals to have greater economic freedom? Explain your answer.
