

Keynes and the Welfare State

by

Maria Cristina Marcuzzo

(Dipartimento di Scienze Economiche,
Università di Roma, “La Sapienza”)
cristina.marcuzzo@uniroma1.it

Abstract

Keynes’s role in the foundation of the Welfare State has not been investigated in detail. The aim of this paper is to propose some further thoughts on the matter, focusing on two aspects in particular. The first is an assessment of Keynes’s views vis-à-vis what we now understand by the Welfare State, the second a comparison between these views and those of Beveridge, the twin founding-father of the system, as they emerge in the exchange they had on the subject. As a sideline, it is also hoped to shed some light on the nature of their relations, from the years that saw them playing leading roles in shaping contemporary economics, respectively, at Cambridge and at the London School of Economics, to the time when their commitment to a high and stable level of unemployment and to spreading the benefits of higher standards of living widely found acceptance among the general public and was endorsed by the British government.

“revolutionary in thought and very cautious in policy”
 J.Meade, *The Cabinet Office Diary, 1944-6*, p. 46

Foreword

There is a widespread tendency to portray Keynes as the founding father of the Welfare State and to claim that the Keynesian revolution provided the justification for the need of a large public sector in the economy.¹ As the literature has amply shown, there are scant grounds for these claims.

Keynes’s criticism of *laissez-faire* policy and disbelief in the smooth working of market forces is antecedent² to the *General Theory*, where the case for intervention is made when faced with aggregate demand failure. The policy message in the *General Theory* is to sustain the level of investment, but this should be interpreted more in the sense of “stabilizing business confidence” (Bateman 1996: 148) than as a plea for debt-financed public works (Kregel 1985). His reliance on “socializing investment” rather than a fiscal policy aimed at smoothing out consumption levels over the cycle shows his concern for the size of the deficit, and the importance ascribed to market incentives to bring about the desired level of employment.³ Thus, the implication that Keynes was in favour of large and growing public expenditure such as we have experienced since the Second World War – as a consequence of so-called Keynesian policies – simply cannot be drawn.⁴

Keynes’s role in the foundation of the Welfare State as far as his actual contributions are concerned both in theoretical and practical terms has not, however, been investigated in detail. This paper sets out to propose some further thoughts on the matter, focusing on two aspects in

¹ There is a vast literature containing such claims, an extreme example being Buchanan and Wagner (1977): see, for instance, the following assertion: “The legacy or heritage of Lord Keynes is political bias toward deficit spending, inflation, and the growth of government” (ibid.: 24)

² “Keynes challenged *laissez-faire* as a *policy* well before he had developed a critique of the orthodox economic *theory* of the self-adjusting tendencies of the free market.” (Meade 1990: 21)

³ “If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them, it will have accomplished all that is necessary” (CWK VII: 378).

⁴ “It is simply unreasonable to claim that [the] growth in government is the *logical* consequence of Keynes’s views on the functions of government, as distinct from those of his followers” (Peacock 1993: 28); “Keynes was concerned that expansionary fiscal policies should not give rise to mounting budget deficit” (Dimsdale 1988: 334).

particular. The first is assessment of Keynes's views vis-à-vis what we now understand by the Welfare State, the second comparison between these views and those of Beveridge, the twin founding-father of the system, as they emerge in the exchange they had on the subject. As a sideline, it is also hoped to shed some light on the nature of their relations, from the years that saw them playing leading roles in shaping contemporary economics, respectively, at Cambridge and at the London School of Economics, to the time when their commitment to a high and stable level of unemployment and to spreading the benefits of higher standard of living widely found acceptance amongst the general public and was endorsed by the British government.

Section I reviews the main issues faced today in defining the Welfare State; section II compares Keynes's and Beveridge's ideas on unemployment and social insurance; section III examines some aspects of their relations as they emerge from the extant correspondence.

I. The Genesis of the Welfare State

According to a recent textbook entirely dedicated to this topic (Barr 2004), the Welfare State “defies precise definition”. The main reasons are that welfare derives from other sources besides state activity, and there are various modes of delivery of the services made available to citizens. Some are funded but not produced by the State, some publicly produced and delivered free of charge, some bought by the private sector, and some acquired by individuals with the money handed on to them by the State. Although its boundaries are not well defined, the Welfare State is used as “shorthand for the state's activities in four broad areas: cash benefits; health care; education; and food, housing, and other welfare services” (Barr 2004: 21).

The objectives of the Welfare State can be grouped under four general headings. It should support living standards and reduce inequality, and in so doing it should avoid costs explosion and deter behaviour conducive to moral hazard and adverse selection. All these objectives should be achieved minimizing administrative costs and the abuse of power by those in charge of running it.

The road leading to endorsement of the above goals in Britain started with the liberal reforms of 1906-1914, but full commitment to them was only sealed with the legislation of 1944-48, favourable conditions for which derived from the experience of World War II and the aftermath.

In the first decade of the 20th century the “new liberalism” was an ideology based on the premise that, in order to advance individual freedom, the state must adopt an active role in social reform; the new measures resulted in the simultaneous introduction of old-age pensions, unemployment insurance, sickness benefits and progressive taxation. However, “the reforms were relatively minor and had limited coverage” (Barr 2004: 13). Even less was achieved in the interwar period, apart from housing and unemployment insurance. Unemployment benefits were in constant danger of outgrowing contributions as unemployment levels soared. By the late 1920s two lines of policy were dominating the political arena: one concerned the financing of unemployment benefits, the other the challenge of reducing unemployment. In 1931 the screws were tightened on eligibility for benefits, and in 1934 the Unemployment Act separated unemployment benefits from measures supporting the long-term unemployed. So “in the 1930s the Welfare State was in abeyance, and new measures were little more than crisis management...When intervention came, in the form of rearmament and war production, the unemployment problem disappeared – an unhappy way of ending an unhappy period in British social policy” (Barr 2004: 26).

In this setting a major breakthrough came with the Beveridge Report (1942).⁵ It was based on three pillars: a) family allowances; b) comprehensive health-care; c) full employment policy. The social insurance scheme was “all-embracing in scope of person and of needs... Every person...will pay a single security contribution by a stamp on a single insurance document each week...Unemployment benefit, disability benefit [and] retirement pensions after a transitional period...will be at the same rate irrespective of previous earnings” (Beveridge 1942: 9-10). The system was to be centrally administered, and financed by equal contributions from employers, employee and the state, with equal benefits set at a physical subsistence level.⁶

Since the publication of the *General Theory* in 1936 Keynes had been arguing in favour of control over total investment – the bulk of it ought to be carried out or influenced by public or semi-public bodies⁷ – as the viable solution to maintain a steady level of employment. He saw the “curse of unemployment” (CWK XXVI: 16) as the root of the evil of market economies,

⁵ The background to it is given in Harris [1977] (1997).

⁶ The 1944 White Paper, *Social Insurance*, accepted most of these recommendations.

⁷ The 1944 White Paper, *Employment Policy*, committed the government to “the maintenance of a high and stable level of employment.”

driving the risk of being overwhelmed by totalitarian solutions – whether of right-wing or left-wing inspiration – to alarmingly high levels in the 1930s was.⁸

The question arises of the relationship between two approaches taken by Beveridge and Keynes respectively to counteract the instability and insecurity deriving from a market economy, in terms of their source of inspiration, design and implementation.

II The case for full employment and national insurance: Keynes and Beveridge

This comparison⁹ between the two approaches is particularly interesting since it brings us up against certain paradoxes, which have baffled both Keynes's and Beveridge's biographers.

The first paradox is noted by Skidelsky: "Keynes's incuriosity about this battle [Beveridge and Social Security] is itself curious. The truth seems to be that he was not interested in social policy as such, and never attended to it. The sole question in his mind was whether the Exchequer could 'afford' Beveridge" (Skidelsky 2000: 270). Skidelsky's conclusion, which in the light of the common view taken of Keynes is itself paradoxical, is that "Keynes was never a passionate social reformer" (ibid.: 265). This evaluation takes Keynes off the Cambridge path as followed by the 'well-doers', such as Sidgwick, Marshall and Pigou, and has him in fact more attuned to a vision of society in which "freedom from the economic problem" would create the conditions for transforming human nature and thereby society. Thus Keynes made his plea for government intervention on the grounds of a more "conservative" social theory than Beveridge's.

On the other hand, Keynes' limited involvement in domestic issues during the years in which the Beveridge proposals were being formulated is explained by Moggridge "in part by his absences in the United State and Canada for long periods in 1941, 1943, 1944 and 1945; and in part he was probably deliberately excluded by the permanent Treasury official from some of the key Committees and discussions" (Moggridge 1992: 695). Be this as it may, it is true that "there never was a comprehensive Keynes plan for maintaining full employment after the war. Keynes's contribution to the famous White paper on Employment policy, issued in May 1944, was mainly by way of encouragement, commentary and criticism, even though

⁸ See, for instance, Keynes's letter to the Editor of *The New Statesman and Nation*, 11 August 1934 "Marxists are ready to sacrifice the political liberties of individual in order to change the existing economic order. So are Fascists and Nazis...My own aim is economic reform by the methods of political liberalism" (CWK XXVIII: 28-9).

⁹ It is argued by Clutler, Williams and Williams (1986) that the Beveridge Report and the *General Theory* "share a common political *a priori*". I find their argument not entirely convincing.

parts of it clearly reflected his theories” (Skidelsky 2000: 270-1). Evidently, therefore, Keynes’s involvement in the design of the two milestones of the Welfare State in Great Britain, national social insurance and full employment government policy, was rather limited.

The case of Beveridge is also interesting since he developed his ideas independently and, in the case of full employment, in opposition to Keynes¹⁰ (Harris 1977). The paradox here is that Beveridge made his proposals on social reforms rest on the orthodox theory that Keynes was attacking. He taught himself economics studying Jevons and Marshall above all, and was drawn towards applied economics (facts and figures) rather than pure theory (concepts and vision).

In this respect, it is interesting to examine Beveridge’s comments on the *General Theory*, written while he was on holiday in Majorca with Sydney and Beatrice Webb in March 1936, recovering from a distressful period fraught with personal and professional anxieties. (Harris 1997:298-99). His comments, examined in conjunction with his farewell address as Director of the LSE (Beveridge 1937), show how little sympathy he had for Keynesian theory. Indeed, his hostility to the “new theory” was such that at the end of 1937 he came to the decision to engage in a study on unemployment, “purposely designed to correct the methodological heresies of Keynes’s *General Theory*” (Harris 1997: 351).

On reading Beveridge’s comments on the *General Theory*, one is astonished to see how difficult that book appeared to someone who had taught himself economics on the basis of Jevons and Marshall, and until then had been close to the ideology (although much less to the theory) of the London School of Economics free market devotees, namely Robbins and Hayek. What strikes the reader is how little he understood of the basics of the multiplier and of Keynes’ argument against trusting in the effects of fall in money wages in bringing about full employment.

A few quotations will suffice. Commenting on the passage where Keynes demonstrates that if the propensity to consume is 9/10, the multiplier is 10, so that for any given increase in public works the secondary employment will prove ten times the primary employment, Beveridge writes:

“because out of a given increment of income the community will generally choose to consume nine-tenths and *invest one-tenth*, therefore with a given increment of investment

¹⁰ “Beveridge five years earlier had scornfully rejected Keynes’s analysis of unemployment and there is no documentary evidence to suggest that he had changed his mind at this [i.e.1942, year of publication of Social Insurance Report] time” (Harris 1977).

however caused, the community will find its income increased by ten times the *amount of the new investment* “ (“Employment Theory and the Facts of Unemployment” in BEV : 4-5, emphasis added).

Noteworthy here is the confusion between propensity to save and investment, and between income and investment. A few paragraphs on Beveridge again misses the point, accusing Keynes of holding that “investment enriches, irrespective of the object of expenditure” (ibid.:5) and once more he fails to see why “a rise in the rate of interest must always and in all circumstances reduce the volume of savings, because it discourages investment” (ibid.: 6). As for Keynes’s point that a reduction in money wages is unlikely ever to increase employment, Beveridge accuses Keynes of endowing labour “with some mystical quality making the demand for it in a market economy independent of the price asked for it” (ibid. : 10).

From these premises it is not surprising that his assessment is that “the General Theory does not in itself explain the actual phenomena of the economic system as we know it... involuntary unemployment is not a proved fact but either an unproven assumption or a confusion of terms” (ibid.: 14).

Harris rightly describes Beveridge’s reading of the *General Theory* “a shattering experience” (Harris 1997: 331). The key to his rejection, apart from the fact that – as we have seen – his command of economics was entirely self-taught, is revealed by one of his closing remarks: “if economics is a science, the answer to this question must be sought not by general reasoning but by analysis of the fact of unemployment and reasoning about the facts” (“Employment Theory and the Facts of Unemployment” in BEV :17).

This is the theme of his farewell address to the LSE, which can be taken as Beveridge’s manifesto against contemporary economics, whether Keynesian or of the LSE brand. His methodological stance is very much in the positivist vein:

“It is the duty of the propounder of every new theory... to indicate where verification of his theory is to be sought in facts – what may be expected to happen or to have happened if his theory is true, what will not happen if it is false” (Beveridge 1937: 464).

It had, however, a Robbinsonian tinge to it: “... economics is concerned with human behaviour in the disposal of scarce resources” (Beveridge 1937: 462).

Robbins (1932) had claimed that arguments pertaining to ethics and political philosophy should be banned from economics. The message was that, while moral sciences deal with what ought to be, economics is concerned with what is. Keynes fought for the opposite view.

Indeed, he was challenging economics to abandon the “modernist claim” to be a scientific study of society and become an investigation “into problems which seek to bring about defined or desired end states (or solutions) and clarify values” (see Marcuzzo 2004).

The premise of Keynesian economics, as we find it in the *General Theory*, is that ‘we cannot hope to make completely accurate generalisations’ (CWK VII: 254) because the economic system is not ruled by ‘natural forces’ that economists can discover and order in a neat pattern of causes and effects. The implication of this assumption is that the task of economics is rather to “select those variables which can be deliberately controlled and managed by central authority in the kind of system in which we actually live” (CWK VII: 254).

The goal is to change the environment within which individuals operate, so that moral and rational motives become the spring of action of the collectivity as a whole (CWK XVII: 453). Keynes's approach, based on the categories of knowledge, ignorance and rational belief, is chosen as the appropriate method for a “moral science” such as economics that deals with complexity and judgement.

We may therefore take the profound methodological differences in their approach to economics to underlie both Beveridge’s inability to get to grips with the *General Theory* and Keynes’ conviction that it was a case of “two minds which have not truly met”,¹¹ since he reacted to Beveridge’s comments, by pointing out to him “how very remote we are.”

However, in the making of his scheme Beveridge sought help and assistance from Keynes – who responded readily and liberally – and soon afterwards he became a convert to Keynesianism, possibly under the influence of the group of progressive economists of Keynesian faith – including Joan Robinson, N. Kaldor, E. Schumacher – that he had brought together to assist him in an inquiry into full employment, which eventually became *Full Employment in a Free Society* (Beveridge 1944).

The story of Keynes’s advice and help has been carefully reconstructed by Harris, Skidelsky and Moggridge, and is only outlined here. In March 1942 Beveridge wrote to Keynes suggesting a talk on how his scheme could be financed. Keynes reacted very enthusiastically and offered suggestions to make it financially more viable. According to Harris, “the co-operation of Keynes was to be of great importance to Beveridge over the next

¹¹ Keynes was keen to have his ideas tested “in conversation” with others. However, his interlocutors had to be attuned to his thinking, or show a critical but sympathetic attitude. See Marcuzzo and Rosselli 2005.

few months, both in enhancing the financial viability of his report and in smoothing the way for its reception in official circles “(Harris 1997: 400). This is borne out by Lady Beveridge’s memoir: “[The Beveridge Plan] was scrutinized and approved by the unquestioned authority of William’s close but highly critical friend in such matters, J.M. Keynes” (J. Beveridge 1954:).

On substantive issues Keynes was not in favour of high taxes to pay for social benefits and pensions, the costs of which ought to be borne out by employers: “Should not the employer,” he wrote, “meet the total cost of providing him with a wealthy worker? If the unemployed were allowed to starve what would employers do when the demand for employment, seasonally or cyclically, increased again? Why should the general taxpayer pay for a pool of available dock labour?” (CWK XXVII: 224).

Secondly, he was in favour of making the State accountable to the taxpayer for the goods and services provided, associating “as closely as possible the cost of particular services with the sources out of which they are provided”. Since he believed that “this is the only way by which to preserve sound accounting, to measure efficiency, to maintain economy and to keep the public properly aware of what things cost” (CWK XXVII: 225).

So while Keynes was appreciative of the “new features” of Beveridge’s Plan, namely “the extension of the social security benefits and contributions to the whole of population, and not merely to the present contributory classes” (CWK XXVII: 252) he was concerned with the budgetary aspects of it. From the strictly economic point of view he was keener to make “public investment a counterweight to fluctuations of private investment” (CWK XXVII: 371), seeing “narrow limitations” in any plan aimed “to stabilize consuming capacity in dealing with depressions” (JMK to James Meade, 8 May 1942).

Both Keynes and Beveridge were concerned with the moral and social problems deriving from unemployment, but while Beveridge stressed the need to ensure everybody against the vagaries and fluctuations of economic activity, Keynes believed that “to provide an adequate material standard of life” was not the “real problem of the future”. He saw it rather as “how to organize material abundance to yield up the fruits of a good life.” For Beveridge, it was the human fight against scarcity, the plague of cycles in production and business confidence – as unpredictable as weather and natural calamities, as he saw them. Social insurance was meant to disjoint individual coverage from general economic performance. For Keynes it was the fight “to persuade [his] countrymen and the world at large to change their traditional

doctrines” (CWK XXVI: 16). By making the future dependent on the economic success of an active social investment policy it would free individuals from the deprivations deriving from unemployment.

The two pillars of the Welfare State – distrust of market forces and, with it, reliance on government intervention to bring about full employment on the one hand, and on the other hand lack of confidence in the power of liberalism to achieve economic security and social stability, again making the case for government intervention – were formulated independently and, perhaps, even in opposition to one another. Beveridge, the Fabians’ heir, relied on neoclassical economic theory while Keynes, the revolutionary economist, relied on reformed liberalism for his social policy.

III The Keynes-Beveridge correspondence

The excellent and extremely well documented biography of Beveridge by Jose Harris (1977) was being written when the edition of Keynes’s *Collected Writings* was under way; the revised edition was published in 1997 and indeed makes use of the new evidence available, in particular on Keynes’s attitudes and reaction to the Beveridge Report. I feel, however, that a comprehensive assessment of the relationship between them and comparison of their contribution to the Welfare State is perhaps still wanting. Studying their correspondence takes us a step further in that direction (In the Appendix a provisional list of the extant 80 letters is tabulated).

The earlier extant letters between them go back to the eve of the first World War, when Keynes – in his capacity as editor – was dealing with Beveridge’s requests to have his work published in the *Economic Journal*. The first is “A Seventeenth-Century Labour Exchange” (EJ September 1914), which Keynes found “exceedingly interesting” (JMK to WRB, 25 March 1914, BEV Iib 13/18), in a letter also including praise of Beveridge’s review of Pigou’s *Unemployment* (EJ, June 1914), which appeared in the same issue. “I am glad,” Keynes wrote, “you criticize Pigou’s treatment of the plasticity of wage theory. I entirely agree with what you say about it. I do not think he commits himself to an actual recommendation to the working classes to allow greater plasticity. But the natural suggestion of what he says is misleading.”

Pigou wrote – in advance of Keynes’s *General Theory* – the first theoretical treatise on systematic unemployment (Pigou 1913, 1933). There is no extant correspondence on this in

the correspondence between Keynes and Pigou, while we have five letters on their collaboration concerning *Wealth and Welfare* in 1913. (Bridel-Ingrao 2005).

Again, in 1919 Beveridge submitted an article, “The agricultural Factor in Trade Fluctuations”, about which he was very excited: “I am inclined to think,” he said in the accompanying letter, “that I have made something in the way of a small discovery in connection with cyclical fluctuation” (WHB to JMK, 20 December 1919, BEV VII/42). Keynes immediately replied that he would be “delighted to print” it, and eventually the article was published in two instalments, in the March and June issues of 1920.

In February 1920 he sent in another article, “British Exports and the World Crops”, (WHB to JMK, 3 February 1920, BEV VII/42): in this case Keynes came up with some reservation (JMK to WHB, 7 February 1920, BEV VII/42), which Beveridge was prepared to accept (WHB to JMK, 9 February 1920, BEV VII/42).

Again, three years later, after agreeing to print Beveridge’s Presidential Address to the Royal Economic Society (“Population and Unemployment”) Keynes had some criticism to make, proposing to print a rejoinder of his own. Again Beveridge reacted very positively: “I certainly hope you will make a rejoinder so that truth may ultimately emerge from controversy” (WHB to JMK, 27 September 1923, BEV VII/42).

Throughout the period from 1914 to 1924, then, their relationship can be seen to have been friendly and collaborative; they seem to have been in general agreement on the issues involved, although it was mostly Keynes’ who came up with advice and comments on Beveridge’s works rather than the other way around. Things changed in 1931. In the late 1920s Beveridge had come round to wage-rigidity as explaining unemployment, possibly as a consequence of his work in the Coal Commission of 1925, whose members had persuaded him that the miners’ wages were too high, and certainly under the influence of Lionel Robbins he was converted to the belief in the self-regulating virtues of a market economy. During the 1929 crisis he wrote to Robbins: “The first essential is to restore the price-machine – in wage fixing and elsewhere” (Harris 1977: 321, 323).

It is of course a well-known fact that at The Economic Advisory Council’s Committee of Economists and at the Macmillan Committee Keynes made a plea for protectionism to reduce unemployment, finding himself in a minority position (Eichengreen 1984). Robbins got a group of people to work together and oppose Keynes’ view, defending the free trade position. The collective effort produced a book (*Tariff: the case examined*) including a contribution by

Beveridge, which he announced to Keynes with an interesting declaration of intent: “I am naturally anxious to make any public difference between economists appear to be as much as possible a difference of judgement as to what is expedient (as indeed I think it to be) rather than a difference as to scientific truth” (WHB to JMK, 14 January 1931, BEV IIB 63 (vi)). In March six chapters of the book in the proof stage were sent to Keynes, who unsurprisingly criticised them in a letter of 23 March, 1931 (BEV VII/37). The next extant exchange occurred in 1936, when another serious confrontation arose between them.

Since 1919 Beveridge had been Director of the London School of Economics,¹² making an enormous effort to manage transformation from a small academic endeavour into an international institution, with more than 3000 students, and 120 members of staff. In the field of economics, Robbins and Hayek were the key figures, attracting foreign scholars and determined to make it the intellectual centre of free market culture. Hicks recalled of himself and his LSE colleagues that “we seemed, at the start, to share a common view point, or even a common faith. The faith in question was a belief in the free market, or ‘price mechanism’ that a competitive system, free of all ‘interferences’, by government or monopolistic combinations, of capital or of labour, would easily find an ‘equilibrium’. (...) Hayek, when he joined us, was to introduce into this doctrine an important qualification – that money (somehow) must be kept ‘neutral’, in order that the mechanism should work smoothly” (Hicks 1982: 3).

Besides the natural rivalry with Cambridge, as a competing academic centre with an outstanding record of excellence in many fields, LSE economics was also opposed to the heritage of Marshall, Pigou and partial equilibrium, endorsing the Austrian and the general equilibrium approach in the tradition of continental authors such as Walras and Pareto. The controversy between Hayek and Keynes 1931-33 seemed to have stretched these differences to the extreme notwithstanding the efforts of the younger and less “embattled” (J. Robinson 1951: viii) members of the two groups to find a common ground (Marcuzzo-Sanfilippo, 2005). The situation came to a climax with the publication of the *General Theory*. A line was drawn between those who felt themselves in total agreement with Keynes and those who felt either misrepresented or alienated by it. In Cambridge Kahn, Joan and Austin Robinson belonged to the former category, Pigou and Robertson to the latter. Sraffa was secretly

¹² The position had first been offered by Sydney Webb to Keynes, who turned it down. See McCormick (1992: 13).

sceptical. At the LSE, Lerner and Kaldor converted to it, Hicks found a compromise, while Hayek, Robbins and Beveridge resisted.

Keynes admitted to Beveridge in June 1936 that “the general nature of your points is such as to convince me that I have really had a total failure in my attempt to convey to you what I am driving at” (CWK XIV: 56).

Beveridge responded that by that time, thanks to Hicks’ article, he thought he had understood what Keynes “was driving at” and the matter was not discussed further. In September 1936 we see Keynes resuming his role of soliciting articles for the *Economic Journal* (JMK to WHB, 22 September 1936). In this case it was the “Analysis of Unemployment, read at the *British Association for the Advancement of Science*, which Beveridge had already committed to *Economica* (WHB to JMK, 24 September 1936).

At the outbreak of the war Beveridge and Keynes, together with other veterans of the First World War, shared anxiety over the ability of government to tackle the problems of the war. They met at Keynes’s house in London and put forward strategies and policies (Harris 1997: 354). Eventually there emerged from these discussions Keynes’s *How to pay for the War*.

The correspondence of those months in 1939-40 witnesses these concerns. On one occasion there was a minor diplomatic incident. In July 1940 Beveridge sent Keynes a memo, wishing to discuss how industry and government ought to be re-organized if the war was to be won. He went to far as to argue that state socialism and the service motive must be substituted universally for capitalism and the motive of personal gain (JMK/W/1/54-8). Keynes took him seriously and forwarded the memo to the Treasury’s Permanent Secretary, R. Hopkins (JMK to WHB, 1 August 1940, JMK/W/1/59-60), much to Beveridge’s alarm, who did not wish “to make too many enemies” (WHB to JMK, 2 August 1940, JMK/W/1/63).

The correspondence of March-October 1942 is entirely devoted to the Beveridge Plan. Keynes’ main objection to it was that it made pensions conditional only on retirement, which he found politically unacceptable. Beveridge resisted, made small concessions and in the end Keynes acquiesced: “After reading this further instalment,” Keynes wrote to Beveridge on 14 October 1942, “I feel confirmed in the feeling I expressed the other day that it is grand document. You can scarcely expect it to be adopted jus as it stands, but it seems to me that you have got it into an extremely workable shape, and I should hope that the major and more essential parts of it might be adopted substantially as you have conceived them” (CWK XXVII: 255).

Keynes had wished to make his maiden speech in the Lords debate on the Beveridge Report on February 24; he was prevented from doing so by the political sensitivity of the issues involved, which made him fearful of “disobliging” the Treasury, which had got itself “into a hideous mess over this Report”, as he explained to his mother on the eve of the appointed date. The draft of his speech is, however, extant, and it reveals Keynes’s whole-hearted commitment and political support. The main point stressed there is a) “there is no cheaper scheme on the map”; b) [it] “is a relatively cheap scheme for the early period” (CWK XVII: 258). The crucial question for Keynes was whether the country could afford the future commitments which the scheme entailed. And his answer once again stressed the view that in the future “the economic problems of the day ... will lie in solving the problems of an era of material abundance not those of an era of poverty” (ibid.: 261).

The extant letters of the last two years of Keynes’s life are interesting because they show their attitude towards the *White Paper on Employment policy* (1944), which later became known as being inspired by Keynes and Beveridge. Keynes was organising a meeting at the Royal Economic Society to discuss it and invited Beveridge to contribute to the subject in the *Economic Journal* (JMK to WHB, 21 May 1944, BEV IXb 30). Beveridge accepted and added “As regards what I think about the White Paper... I do most heartily congratulate you and the economists on the distance to which you have moved the government. I shall do what I can to help to move them still further” (WHB to JMK, 5 June 1944).

On his voyage to the USA Keynes read *Full Employment in a Free Society* and reported to Beveridge that he found it “extremely good” (JMK to WHB, 16 December 1944, JMK/L/44/97-9). Beveridge had hopes to be able to discuss points Keynes raised (WHB to JMK, 8 January 1945), but the extant letters do not reveal whether they ever did.

Finally, we have the last exchange relative to nominations to the British Academy, section IX, Economic science. In 1942 Beveridge had suggested Robbins and Cole (WHB to JMK, 17 January 1942, JMK/BA/1/80); in 1944 he agreed to put forward Hayek, but with scant enthusiasm since he felt he should have proposed Joan Robinson, who was “really much better than Hayek” (WHR to JMK, 9 and 28 February 1945).

Beveridge had really made a full turnabout round and as far as economics ideas were concerned he had become closer to the most radical amongst the Keynesians than to the holder of the torch of free market and liberalism.

Conclusion

In December 1942, a few days after *The Beveridge Report* was published, Beveridge married Juliet (Jessie) Mair, the controversial Secretary of the LSE and his cousin's widow, who had been a close friend for many years. In a volume of recollections she recorded that Keynes's wedding present was the 1691 edition of W. Petty's *Political Arithmetic*, with the following inscription: "To Sir William Beveridge this book by the founder of his (and my) craft on the occasion of his contriving social security for the rest of us and *not forgetting himself*" (J. Beveridge 1954: 127).

The playful tone of Keynes's inscription seals the understanding reached between Keynes and Beveridge after their disagreement over free trade and the *General Theory*.

While Keynes was able to tune in with Beveridge's proposals at the time of his Report, Beveridge was unable to do the same with Keynesian theory. I surmise that this was due to the revolutionary aspect of Keynes's theory, which took quite a long time to be accepted and absorbed. Beveridge's path-breaking ideas in the realm of social reforms were unacceptable to anyone accustomed to viewing questions of economics with the lenses of scarcity and allocative constraints.

Keynes was not bothered by the financial burden of a generalized insurance scheme since he believed that it would force the country to adapt its attitude to the future. "If we approach it with cringing and timidity, we shall get what we deserve. If we march on with confidence and vigour the facts will respond" (CWK XXVII: 260). This, it seems to me, is the intellectual and political legacy of Keynes: building the future on confidence, rather than deficit spending.

References

- Barr N. (2004), *The economics of the welfare state*, 4th ed, Oxford: Oxford University Press.
- Bateman B. (1996), *Keynes's Uncertain Revolution*, Ann Arbor: University of Michigan Press.
- Beveridge J. (1954), *Beveridge and his Plan*, London: Hodder and Stoughton.
- Beveridge W.B. (1937), The Place of the Social Science in Human Knowledge, *Economica*, September.
- Beveridge W.B. (1942), *Social Insurance and Allied Services*, London: HMSO.
- Beveridge W.B. (1944), *Full employment in a Free Society*, London: Allen&Unwin.
- Bridel, P. and Ingraio, B. (2005), Managing Cambridge Economics. The correspondence between Keynes and Pigou, in M. C. Marcuzzo and A. Rosselli (eds), *Economists in Cambridge A study through their correspondence, 1907-1946*. London: Routledge, (forthcoming).
- Buchanan J. and Wagner R. (1977), *Democracy in Deficit*, New York: Academic Press.
- Cutler T. Williams K. and Williams (1986), *Keynes, Beveridge and Beyond*, London: Routledge and kegan.
- Dimsdale, N.H. (1988), Keynes on Interwar Economic Policy, in W. Eltis and P. Sinclair (eds), *Keynes and Economic Policy. The Relevance of the General Theory after Fifty Years*, Basingstoke: Macmillan Press 1988.
- Eichengreen B. (1984), Keynes and protection, *Journal of Economic History* 44: 363-73.
- Harris, J. [1977] (1997), *William Beveridge. A Biography*, Oxford: Clarendon Press, 2nd ed.
- Hicks, J.R. (1982) 'Introductory: LSE and the Robbins Circle', in J.R. Hicks (1981-3), *Money Interest and Wages*, vol. 2, pp. 3-10.
- Keynes, J.M., 1971-1989. *The Collected Writings (CWK)*, D. Moggridge (ed.), London: Macmillan
- CWK VII, *The General Theory of Employment, Interest, and Money*;
- CWK XIV, *The General Theory and After: Defence and Development*;
- CWK XVII, *Activities 1920-2. Treaty Revision and Reconstruction*;
- CWK XIX, *Activities 1922-29. The return to Gold and Industrial Policy. Part I*;

CWK XXVI, *Activities 1940-1946. Shaping the Post-War World: Bretton Woods and reparations*;

CWK XXVII, *Activities 1940-1946. Shaping the Post-War World. Employment and Commodities*;

CWK XXVIII, *Social, Political and Literary Writings*

Kregel J. (1985), Budget Deficits, Stabilisation Policy and Liquidity Preference: Keynes's Post-War Policy Proposals in F. Vicarelli (ed), *Keynes's Relevance Today*, London: Macmillan.

Marcuzzo M. C. (2004), From market 'imperfections' to market 'failures'. Some Cambridge challenges to *laissez-faire*. *Annals of the Society for the History of Economic Thought* 45, June.

Marcuzzo M. C. and Rosselli A. (2005), Introduction to M. C. Marcuzzo and A. Rosselli (eds), *Economists in Cambridge. A study through their correspondence, 1907-1946*, London: Routledge (forthcoming).

Marcuzzo M. C. and Sanfilippo E. (2004), Dear John, Dear Ursula (Cambridge and LSE, 1935): 88 letters unearthed, presented to the Workshop "John Hicks: one hundredth anniversary", Bologna, 15-17 October.

McCormick B.J. (1992), *Hayek and the Keynesian Avalanche*, London: Harvester Wheatsheaf.

Meade J. (1990), *The Cabinet Office Diary, 1944-46* in *Collected Papers* ed. by S. Howson, vol. IV, London: Unwin Hyman.

Moggridge D. (1992), *Maynard Keynes. An economist's biography*. London: Routledge.

Peacock A. (1993), Keynes and the role of the State in D. Crabtree and A.P. Thirlwall (eds), *Keynes and the role of the State*, London: Macmillan.

Pigou A.C. (1913), *Unemployment*, London: Williams and Norgate.

Pigou, A. C. (1933), *The Theory of Unemployment*, London: Macmillan.

Robbins L. (1932), *An Essay on the Nature and Significance of Economic Science*, London: Macmillan.

Robinson J.(1951) *Collected Economic Papers*, vol. I, Oxford: Blackwell.

Skidelsky R. (2000). John Maynard Keynes. Fighting for Britain, 1937-1946. London, Macmillan.

