

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

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## Abstract

This paper gives an account of the debate between F.A. Hayek and J.M. Keynes in the 1930s written for the general public. The purpose of this is twofold. First, to provide the general reader with a narrative of what happened, and pointers to further reading which 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, Keynesianism, neo-Austrian theory, common reader

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## 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 quote 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 4,700,000 views, and has spawned another two videos, one titled ‘Fight of the century, Keynes vs. Hayek round two’ with 2,700,000 views and ‘Hayek’s Gift’ with 190,000 views.<sup>1</sup> 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 looked at the life, work and influence of Keynes, Hayek and Marx.

It is not only visual media that has picked up this trend. Journalist Nicholas Wapshott 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,

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<sup>1</sup> I want to thank Jonathan Haas for first bringing this video to my attention, and the many students who have asked to discuss it ever since.

and by authors with diverse backgrounds. Nevertheless, 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 the usefulness of any such exercise beyond 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, more 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.<sup>2</sup> It is no surprise 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 general 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 study in the humanities and 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 to 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 19<sup>th</sup> 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, p. 614). 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,<sup>3</sup> it can be argued that these popularisations perform a useful function in a democratic society.<sup>4</sup>

There is, however, a danger. That danger is a descent into over-simplification 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

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<sup>2</sup> Lawrence White explains how such stories employ a non-linear historical narrative approach with flashbacks and other digressions that brakes 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, p. 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 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.

<sup>3</sup> A first study on this elusive ‘economics common reader’ can be found in Lamm (1993). Related work has been carried out by methodologists and historians of economic thought on popularisations of contemporary economics. The development of a literature called ‘Economics for Fun’ has been the subject of a number of recent studies (see e.g. Aydinonat, 2012; Backhouse, 2012; Fleury, 2012; Maki, 2012; Vromen, 2009). This literature focuses on popularisations of mainstream economics and the various methodological and other questions that arise from this activity. In Repapis (2013) I discuss the importance of writing for the common reader for heterodox economics as seen through the work of G.C. Harcourt. But at this juncture it is important to draw the distinction between what the popularised texts say, and what is understood, perceived, or seen as the message by their intended audience. Jonathan Rose in his preface of *The Intellectual Life of the British Working Classes* (2010) notes that academic readers analyse texts or popular culture by reacting to these texts as if they are the intended audience – which they are not. This is why there is a need to gather evidence, not only on what people read, but how they read it, why they do so and what do they take from this reading, if we are to get a deeper understanding of the ‘common reader of economics’.

<sup>4</sup> An older literature following Webb (1955) focuses on issues of increasing literacy in the early 19<sup>th</sup> century and the efforts of the upper middle class to introduce ‘proper’ political economy to the working classes. This brings to the fore issues of ideology and class frictions that are central to any discussion on why, how and for whom economic ideas get popularised. Therefore, the relation between economic theory, popularisations, social stratification and democratic debate is not a simple one, and needs to be further analysed.

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 reading 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 such a way as to give substantial referencing and commentary in the text with long footnotes problematising every generalisation the author is making, it will lose its appeal *vis-à-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 to 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 other writers that is democratic and aims to inform rather than merely argue.<sup>5</sup>

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 the argument, the contrasting view. I concentrate on

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<sup>5</sup> It should be mentioned that a couple of books 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, 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.

Hayek because Keynes's theoretical output is in some sense more varied. First, because he formulated more than one theoretical scheme in the 1930s, and second, because Keynes's theoretical output has had a broader and more complex interpretative tradition in macroeconomics than Hayek's.

To set the stage, it is worth remembering that the 1920s had been seen by contemporary politicians and economists as a period of relative prosperity. Professor Lionel Robbins writes in his book *The Great Depression* published in 1934 [the 1920s 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, p. 7). This was not to last for long. The period from 1929 to 1933 upset the confidence that economists and politicians had had in the free market for most of the latter part of the 20<sup>th</sup> 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, p. 11). Economists found themselves in a crisis they did not anticipate, but almost immediately recognised it as a singular event in modern economic history.

How did the economic profession respond to these unprecedented events? Keynes through a series of popular articles, pamphlets, and his book *A Treatise on 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 would 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 (LSE) was in turmoil.

In the early 1930s the LSE had no economist of equal stature and authority to Keynes. Professor Robbins decided to bring from Austria a theorist who 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 1930s.

*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 1930s. 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 firms' 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.

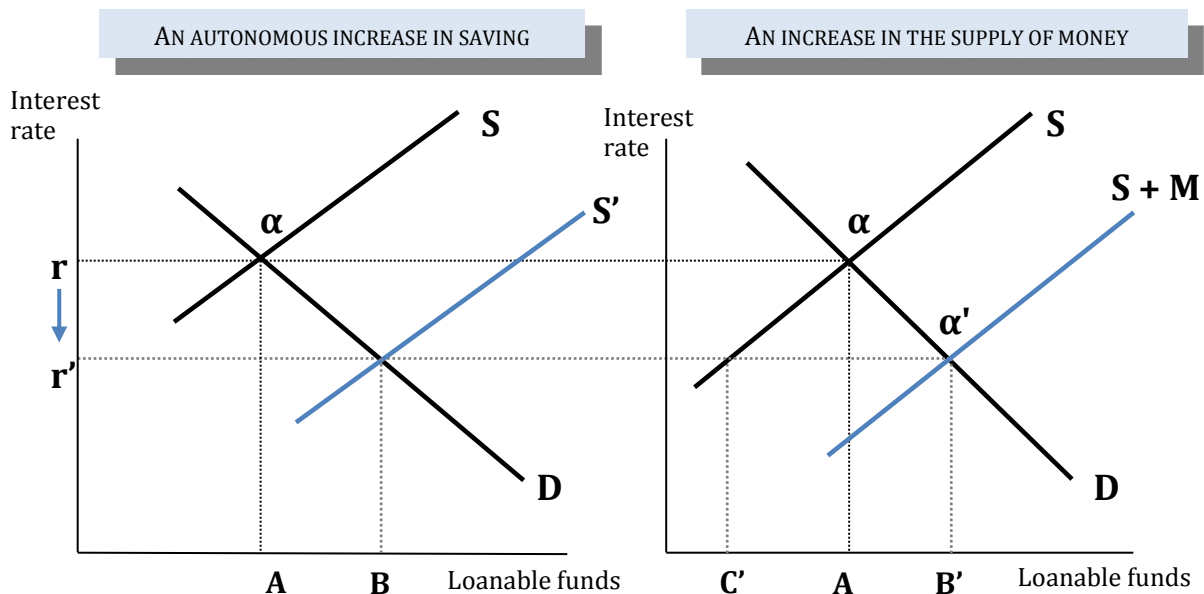


Figure 1.

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

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 of 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 pursuit for profit in an uncertain environment, 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. Therefore, we are still on the old supply schedule and, at the new interest rate ( $r'$ ), individuals would wish to reduce the amount they save to point C'.

As the economy adjusts 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, we observe the common phenomena of increased unemployment, decreased production, and wage deflation. The reason why we have both unemployment and unused capital is because there is a misalignment between what the market wants in consumer and producer goods, and what its existing capital structure can deliver. Thus, according to Hayek, physical capital may appear underutilised, but the reason for this phenomenon is that its economic use has decreased, as it was built to deliver a specific array of goods. What it can produce is no longer in demand, hence its economic value has diminished, and workers remain unemployed as the old production processes shut down and the new ones are yet to be fully functional.

If the government, through the central bank, responds by continuing to keep an artificially low interest rate so as to avert the crisis, it is only buying time. The government cannot avoid the crisis forever because then the value of paper money would be reduced to zero. Therefore, the longer the crisis is averted, the bigger the economic *malcoordination* 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.

Hayek in his analysis of the trade cycle as sketched in *Prices and Production* had started from a position of long period equilibrium. In that book he tried to outline a theory that would encompass both the period of prosperity and that of depression. Keynes's approach and reaction to the crisis was radically different. Keynes viewed the crisis stage of the cycle not as a necessary correction for the irresponsibility and malcoordination of the boom, but as a crisis of confidence that tipped the delicate balance of a market economy. For stability to be re-established 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, p. 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 breaks 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 decreases 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, p. 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, what was observed during the crisis was the abandonment of investment plans because people wanted to consume more, and it was more often than not, the central bank with its opportunistic behaviour of making money cheap that caused the crisis. From this he deduced, not only that the government had no good role to play in this affair, but also, that the crisis is important in order to bring those who thought that opportunism could triumph over prudence, back in line.

Therefore, Hayek and Keynes took very different paths in their efforts to combine neoclassical economic theory with the events of the Great Depression. Hayek's theory focused on the cyclical nature of prosperity and depression, making him pessimistic about ascribing to the government any corrective role. Keynes perceived the crisis as an inherent flaw of the capitalist system. In the *General Theory*, the government was seen as a stabilising force in an inherently unstable world. For Keynes the mechanisms of the classical system operated when it was business as usual but failed to apply in periods of economic turmoil.

Their differences did not end there. Hayek saw another disturbing prospect in ascribing to the government an ever-increasing economic role. Could it be that the emerging intellectual consensus in the 1930s and 1940s of the need for more government intervention and more central planning as the only therapy to the inherent flaws of capitalism was putting society on a path towards socialism?

This prospect motivated Hayek in writing *The Road to Serfdom*, arguably his most widely read book. With its publication in 1944 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, in all his writings from the 1920s until the end of his life, 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 ends 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, p. 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, p. 385). By 1940 Hayek appeared equally convinced that the differences between Keynes and himself were not a full-blown dispute on the form of economic organisation that societies should strive for. Keynes was not a socialist, and shared with Hayek a deep commitment to 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, p. 83).

This underlines their key disagreement: what are the best policies for safeguarding the liberal tradition? Keynes, in his letter to Hayek in response to *The Road to Serfdom* 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, p. 386). This was the essence of the argument. Both believed in the principles of western liberalism and in individual choice. But, while Hayek was driven by abstract principle, Keynes was drawn by policy implementation. Hayek was concerned with the growing unchecked power of the state even in the Great Depression or during the heat of WWII. Keynes was always concerned with real situations and their immediate cures when discussing economic policy. 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, more unhindered market activity, would become very fashionable from the early 1980s and remains 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 in a liberal society. 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. Commentary and Notes on Further Reading**

#### **3.1 The Protagonists – A Brief Bibliography of Biographies**

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, p. 218)<sup>6</sup>. 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's 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 book that discredited the Versailles peace treaty and its harsh conditions for Germany. It is the book that propelled Keynes to 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.

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<sup>6</sup> 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 the 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 history of economic thought books that are written for the public.



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's work, making it possibly a challenging read for the non-economist (Skidelsky, 2010). A more accessible book on Keynes, written after the start of the recent financial crisis is Clarke (2009). Keynes, has never been in want of biographers, and there has been a fair number of biographies written since the early 1950s (Barnett, 2013; Davidson, [2007] 2009; Harrod, [1951] 1963; Hession, 1984; Moggridge, [1973] 1993 ; [1992] 1995). Biographies unavoidably carry the flavour of their times, as much as an impression of their subject, and there is some variation on how Keynes and his economics are portrayed. Finally, one can get an idea of Keynes's complex personality in a set of talks by celebrated historians of economic thought (Caldwell et al., 2009).

Hayek was born in 1899, 16 years after Keynes, and lived for another 46 years after Keynes's death in 1946. Alan Ebenstein published in 2001 the first full biography of Hayek, and introduced the following periodisation 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. After 1974, his reputation as one of the greatest thinkers in economic and social theory would never really be in question. Furthermore, Hayek's complex evolution of thought is the subject of 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.

What this periodisation shows is that the Keynes-Hayek intellectual battle found Hayek at the start of his long academic career, and Keynes at the end of his. Hayek not only outlived Keynes, but lived long enough to see in print a number of Keynes's biographies, reviewing the one written by Harrod (Hayek, 1952). He saw the publication of 30 volumes of Keynes's *Collected Writings* completed in the 1980s, and wrote a piece in *The Economist* on June 11, 1983 marking 100 years from Keynes's birth (Hayek, June 11, 1983), a milestone Keynes missed by 37 years.

Furthermore, the world had changed since Keynes's death. Hayek lived half his life after the Second World War, a period Keynes did not live to see. This also brings forth the realisation that our distance from these two actors and their lives is not proportional – nor is it so far removed in time that these differences do not matter. Hayek died less than 25 years ago, just after the fall of the Soviet Union, having seen the start of our current era and the end of the epoch that followed Keynes life.

### **3.2 Brief Notes on the Historiography of the 'Duel'**

This naturally brings us to consider the context of their intellectual argument, and how our view of what happened in the 1930s has changed over time. A natural first step is to revisit the narrative of the 1930s constructed in the previous section and raise the following question: 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, pp. 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, p. 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. The episode is explored in detail in Howson (2011).

This is interesting because today it feels only natural that Hayek was at the LSE in the 1930s and that this battle was destined to happen. And while, it was, with hindsight, a very fortuitous appointment, the 1930s have not always been portrayed as the clash between these two intellectual giants. G.L.S. Shackle, who started his academic career in the 1930s, and was involved in the debates during this period, was the first to write a book about the intellectual discoveries of the 1920s and 1930s from a history of economic thought perspective (Shackle, 1967). His book, a classic in the field, is interesting to the modern reader for another reason as well. Hayek is effectively not mentioned in Shackle's 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 that 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 1960s Keynes had won the day. But what is interesting is that the 1930s 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, even if slightly more important than the others, was Hayek.

Since the 1990s 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, pp. 27-50).<sup>7</sup> Robert Cord, who attempts to explain Keynes's success in the 1930s 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 1930s debates, as viewed by the history of economic thought community, started to change in the 1980s, although there had been solitary voices making this argument much earlier with the most important being Hicks (1967). 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 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.

Therefore, as the history of economic thought community started giving more attention to Hayek's early business cycle writings, the intellectual rivalry with Keynes also gained more prominence. The following example may be an indication of how much the

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<sup>7</sup> Laidler 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, p. 49)

narrative of the intellectual duel has captured the imagination of scholars in this community. Hayek never wrote a review of Keynes's *General Theory*. The reasons why this review never happened have been the subject of a number of academic papers (Caldwell, 1998; De Vecchi, 2006; Howson, 2001; Sans Bas, 2011). This research has been widely read and cited. As an indication, Caldwell's article has at least 14 articles and 6 books citing it today (July 2014). This shows how important this question has become for the history of economic thought community, as it is a missing piece in the narrative of Hayek's confrontation with Keynes in the 1930s. It also shows how historians create narratives, and focus on specific questions as these narratives gain prominence.

### **3.3 Modern Schools of Thought and Their Relation to Hayek's and Keynes's Writings**

Between the 1940s and this revival of interest from the history of economic thought 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 20<sup>th</sup> 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 theory. 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, p. 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's work. Because the primary material is technical, conceptually difficult, and written primarily for academic economists, the general public often approaches this work through intermediaries.

Nevertheless, the difficulties of the key texts are not only a problem for the common reader. Therefore, interpretations of Hayek's work in the 1930s range between academic readers or even communities of academics viewing this material from different vantage points. One example is how history of economic thought scholars stress more the evolution of Hayek's thought focusing on issues of continuity and change in his research programme over his lifetime. A recent historical account of Hayek's research on business cycles can be found in Hansjoerg Klausinger's introduction in the relevant volumes of Hayek's collected works (Hayek, 2012a; 2012b). There Klausinger introduces a periodisation of Hayek's business cycle work, showing that it consists of different phases of analysis, as Hayek's understanding of equilibrium, expectations, capital and knowledge changed over his lifetime. This understanding would inevitably influence the simple narrative constructed in the previous section, as Hayek's analysis in *Prices and Production* is not his final word on the matter of business cycles, and that simplified depiction does not take into account important elements of Hayek's work on fixed capital, changing expectations, or more complex views of equilibrium.

On first reading, these issues may appear more like a sparring match between scholars interested in the minutiae of academic argument. I think this is not the case. Even questions concerning the core of Keynes's message have divided economists from the 1940s onwards. Today, economists that self-identify as Keynesians might 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. Then diverse schools of thought see Keynes's original texts as part of their intellectual heritage or ascribe a symbolic value to his work. The most dominant school in academic economics today that follows this line is the 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 field's 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.

Keynes's writings are more central and revisited regularly in theory discussions by another school of thought, the post-Keynesians. This is a very diverse school, 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's 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.

This means that the challenges faced when popularising Keynes's fundamental insights are not equivalent with those of a physicist trying to make Einstein's theory of relativity broadly understood by the general public. Different physicists may vary in how they decide to represent Einstein's pioneering theory but would not be in intellectual disagreement on what Einstein's theory is about. With economists that identify as Keynesians the intellectual disagreements are much deeper. Therefore, one could even argue that 'Keynesian economist' as a term has become a conventional label for a large group of economists who occupy similar positions in the political spectrum, and this is their only unifying thread. This means that any reader interested in Keynes and his theoretical work must be aware how varied these traditions are, in order to avoid confusion between the different claims on Keynes's message.

Hayek's relation to macroeconomic theory after the 1940s faces different problems to Keynes's. Whereas Keynes had a diverse following, Hayek's technical work had, after the 1940s, almost no following outside the new Austrians. He may have been in the University of Chicago in the 1950s and early 1960s, but this does not mean he effectively influenced 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 1970s and early 1980s, 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 find this not to be the case, as Hayek's work has only a superficial resemblance to the literature of dynamic

stochastic general equilibrium models as it unfolded from the 1980s onwards. This shows that both Hayek's and Keynes's technical work on business cycles is not a linear progenitor of later 'clashes' between e.g. post war American mainstream Keynesians and Monetarists, or the modern publicised divide between 'freshwater' and 'saltwater' economics. The only thread in any such narrative that connects these debates is that the two sides occupy different policy positions, with each side providing arguments for and against government intervention in the economy.

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 1940s, and Keynes died in 1946 and his economics lived on but in the hands of other theorists. Their clash in the 1930s is important from a history of economic thought perspective, 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?

### **3.4 The Broader Picture**

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. Keynes's diverse literary output became the inspiration in later generations of economists for developing a more complicated view of how capitalism works and why it occasionally needs a visible hand to take action when invisible ones fail. In order to really understand the scope of Keynes's vision, and also see his brilliance as an essayist, it is important to visit the primary texts and decide on the merits of his arguments first hand.

Keynes's 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's 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, viewed crassly as the other policy pole in this free market vs. government intervention narrative, has a complex position in relation to the role and limits of government action. In oversimplified accounts, like the one attempted in the previous section, the usual interpretation put forward is that all government action is problematic and unwelcomed. However, Hayek had a much more refined theoretical position that emanated from his understanding of the western liberal tradition. He wrote extensively on the importance of the rule of law in demarcating the limits of policy action. That is why, in *The Constitution of Liberty*, he notes that 'freedom of economic activity has meant freedom under the law, not the absence of all government action' (Hayek, 2011, p. 329). And adds, several pages later, 'in other words, it is the character rather than the volume of government activity that is important' (Hayek, 2011, p. 331). He goes on to argue that a government that is not very active but, when it acts its actions negate the rule of law, can do much more harm than a government 'more concerned with economic affairs' that respects, however, societal rules that demarcate what it can and cannot do.

The above brief vignette cannot do justice to Hayek's argument, and this is why there is good reason to approach his writings directly and read *The Constitution of Liberty* first hand, if one is concerned about the proper limits of government action in a liberal democracy.

All of Hayek's writings are in the process of being published in one series as his collected works, by the University of Chicago Press. The general editor is Bruce Caldwell. The first ten volumes (Hayek, 1988; 1991; 1992; 1995; 1997; 1999a; 1999b; 2007b; 2012a; 2012b) plus volumes 12 (Hayek, 2007a), 13 (Hayek, 2010), 15 (Hayek, 2014) and 17 (Hayek, 2011) are out. 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 1930s 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 volumes 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**

Economics is a subject that the common reader finds interesting and important for good reason. At the same time, much 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 detail 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 like 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 problematises part of the narrative. This, I think, is this scheme's 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, p. 337).

There are many questions to be answered in relation to how we apply this scheme in practice. For the Keynes vs. Hayek case study attempted above, I will concentrate on the following three areas: (1) the selection and presentation of further reading, (2) the different ways by which the commentary 'crosses paths' with the narrative and, (3) what does this narrative and commentary tell us about its targeted 'common reader'.

Starting with pointers for further reading, it should be clarified that not all texts referred to in the commentary are there to fulfil this function. The various subsections of the commentary have different purposes, only one of which is to provide further reading the reader should look up. With references where this is the main purpose, some brief comments

are given on what this reading has to offer. For example, in the section of the biographies of Keynes and Hayek, Skidelsky's three volume biography is mentioned first, simply because it is the standard upon which all biographies of Keynes are judged, and because it presents us with a useful periodisation of Keynes's life. But then alternatives are offered which are more concise and therefore reasonable suggestions, like Skidelsky's introduction to Keynes or Clarke's book. Furthermore, the references given for further reading must be material that the public would have reasonably easy access to. This is why I avoided references to subscription journals, as the reader is not part of the academic community or necessarily affiliated with an academic institution. Books come at a cost, but are available in bookshops, and can be bought by the reader depending on what he wants to read more about – Keynes, Hayek, modern Keynesian theory or neo-Austrian theory etc.

A possible criticism of the section is that the referencing still has an academic flavour. Little use has been made of material freely available on the internet, or other forms of information transition, as it makes references only to other texts. There is, however, substantial audio-visual material on Hayek, who gave recorded interviews and talks during his lifetime. Also there are online resources by scholars writing blog entries or discussing this intellectual battle on videos available online.<sup>8</sup> How to integrate these resources is not a simple question, but there are ways to be more imaginative. A possible example is a Prezi titled The F. A. Hayek Global Tracker, created by G. Ransom, with free online access,<sup>9</sup> which plots Hayek's travels through his life with playable videos on each stop taken from Hayek's interviews. There remains, therefore, substantial scope for improvement on how to make resources available to readers and entice them into exploring further the subject.

For the reader to take this step she needs to realise the limits of the narrative she has just read. This is one of the reasons for having the commentary structured separately, so that it is free standing and on equal ground with the main narrative. In this case study the commentary took up both factual points of the narrative, for example clarifying how Hayek got the position in the LSE, and broader theoretical points, for example noting Hayek's complex position on the rule of law and government action. Furthermore, it questioned the viewpoint of the scholar-populariser, by explaining how different academic economists have varying interpretations of Keynes's and Hayek's theories. But the commentary went further than that. It problematised the basic structure of the narrative by discussing its historiography and the links these theorists have with contemporary schools of economic thought. Therefore, the reader was given clear signals on the limits of this narrative structure, so that she does not leave the discussion with a distorted view of economics in the 20<sup>th</sup> century, or Hayek's and Keynes's role in its development.

How effective the commentary is in conveying all this information to its prospective reader is open to discussion. Part of the answer lies on the other side of the coin, the reader herself. It is unreasonable to assume that all general readers, whatever their background, will come to the same common understanding after reading through this article. Inevitably, the audience for which most things will fall in place by the time they have finished reading is much narrower, and the implicit demands of the text already gives us an indication of its constitution. The use of supply and demand curves in section two shows us that the reader will have some basic knowledge of economics, which may be no more than a semester or so in higher education, but enough to make her comfortable with this abstraction.<sup>10</sup> This points to the following definition of the 'modern common reader' articulated by Frank Kermode: 'the person [who] has attended a university and studied with accomplished scholars, but then has

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<sup>8</sup> For example: <http://www.youtube.com/watch?v=PLBOKq4On7k> (accessed on 06/07/2014)

<sup>9</sup> You can find it at: <http://prezi.com/v2k0vacx7huf/the-f-a-hayek-global-tracker/> (accessed 05/07/2014)

<sup>10</sup> I would like to thank Nuno Martins for pointing this out.

gone out into the professional world to make a living' (Knight, 2003, p. 154). This is, to use, again, Kermode's words – out of context – 'an "elite minority", clearly differentiated from the uneducated on the one hand and the specialists on the other. In fact, it was Johnson's Common Reader' (Kermode, 1983, p. 3). This is, in some ways, no surprise. The majority of humanity is not interested in the Hayek-Keynes debate, even in the five minute rap version, and those who are interested enough to read a book, or at least an article, are a very small minority.

Even if we agree that this is our target audience<sup>11</sup> there is still the fear that the commentary becomes too heavy and technical so that the reader finds herself again to be an outsider. In some ways it can be argued that the commentary constructed in section three was too ambitious in detail and referencing. It created its own subtext making it demanding reading to even this audience. 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 and upset its simplified 'truths'. This means that the commentary, like the narrative, has as its objective to inform, or to use a more old fashioned term, to educate its readers.

Therefore we return to the core question, which 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.

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<sup>11</sup> And there are many publishers who would beg to disagree. Therefore, issues of marketability and gross sales would be part to any such discussion between authors, their publishers and their targeted reader. In this there have been critical voices, with Frank Kermode writing 'The Common Reader is of course not a person but a constituency, and everybody not seeking to grind an axe must know that by now it is a pretty rotten borough' (Kermode, 1983, 3). The core question is what does this constituency want? To call it a rotten borough implying that what it wants is what is on offer and currently consumed, is to take too neoclassical a stand on the matter for my taste.



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