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NEOLIBERAL ECONOMISTS AND THE BRITISH WELFARE STATE, 1942–1975

BY
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Liberal economists' attitudes towards the welfare state are examined to see how clearly neoliberalism can be distinguished from other forms of liberalism. Three questions are asked. First, how could Friedrich Hayek believe he could accommodate elements of the welfare state agenda set by William Beveridge and John Maynard Keynes into his thinking? Second, why did Hayek become increasingly critical of the welfare state? Third, how far did Lionel Robbins, John Jewkes, and Alan Peacock agree with him? All three might be regarded as neoliberals according to the litmus test set by Philip Mirowski and Dieter Plehwe: that is, membership of the Mont Pèlerin Society or a think tank associated with the Atlas Economic Research Foundation. Yet, Robbins, Jewkes, and Peacock are on a spectrum between Mirowski's definition of neoliberalism as a belief that freedom is to be found in the unfettered market, and classical and democratic liberals' belief that people have to be nurtured to become effective citizens and have to be protected from the market's disruptive effects. It is suggested that a nuanced approach is required in explaining why liberal economists came to believe the welfare state should make more use of markets and pricing systems for registering preferences and apportioning resources.

George Peden, University of Stirling. This article draws on research that began with a paper, "Economists and the British Welfare State from New Liberalism to the New Right," presented in March 2010 at an international workshop at Hitosubashi University, Tokyo, on "Cambridge, LSE, and the Foundations of the Welfare State: New Liberalism to Neo-liberalism," and continued with a paper, "British Economists and the British Welfare State: From Beveridge to the New Right," published in Roger Backhouse, Bradley Bateman, Tamotsu Nishizawa, and Dieter Plehwe, eds., *Liberalism and the Welfare State* (New York: Oxford University Press, 2017). The argument in the article was presented in May 2016 at a conference of the European Society for the History of Economic Thought at University Paris 1 – Panthéon-Sorbonne on the theme of "Inequalities in Economic Thought." I am grateful to the editors of *Liberalism and the Welfare State,* and also to Susan Howson, Ben Jackson, Stephen Meardon, and participants at the workshop and conference for comments and suggestions.

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I. INTRODUCTION

In a recent paper Philip Mirowski (2014) criticizes historians of economic thought who are disinclined to treat neoliberalism seriously as an intellectual project or analytical category, or even deny that it exists. He concedes that the word "neoliberalism" has many meanings, but points out that that is also true of "liberalism." Mirowski sees neoliberalism as a thought collective and political movement that began with the foundation of the Mont Pèlerin Society in 1947 (Mirowski and Plehwe 2009). In response to the objection that there is no body of people calling themselves neoliberals, he claims that since the late 1950s neoliberals have deliberately disavowed that name in order to obfuscate their purpose of imposing the discipline of the market on society. In particular, he condemns neoliberals' attempts to identify their movement with classical liberalism. He defines neoliberalism in terms of a doctrine that freedom is to be found in the unfettered market, which he contrasts with classical and democratic liberals' belief that people have to be nurtured to become effective citizens and have to be protected from the market's disruptive effects (Mirowski 2014, p. 12).

Classical and later variants of liberalism certainly included understanding of the need to nurture and protect citizens. For example, Adam Smith advocated the public provision of parish schools that would cater for children of what he called the laboring classes. He hoped thereby to maintain capacity for independent thought despite the dulling effect of repetitive work resulting from the division of labor (Smith [1776] 1976, pp. 781–786). Even John Stuart Mill's dictum that laissez-faire "should be the general practice, every departure from it unless required by some great good is a certain evil" (1848, pp. 515–516) left ample scope for increasing state intervention, particularly as regards public health, in an industrializing and urbanizing society. By the 1880s what in Britain was called "new liberalism" saw a positive role for the state in promoting the common good and social justice, and in the early twentieth century the Liberal Party became associated with measures to mitigate poverty (Freeden 1978).[1] However, while accepting state intervention in education, public health, and other public services, liberal economists like Alfred Marshall regarded the market as normally not only the most efficient means of allocating resources, but also the best way to encourage self-reliance and forethought on the part of individuals (Marshall [1890] 1907, pp. 5–10, 744–748). For liberals, participation in the market was part of the nurturing process. From this perspective it seems that there may be more common ground between classical liberals, new liberals, and neoliberals as regards the welfare state than Mirowski allows.

Curiously, Mirowski has little to say about the welfare state. The term does not occur in the index of the volume that he and Dieter Plehwe edited on the making of the neoliberal thought collective, although Keith Tribe, the British contributor to that volume, refers to the welfare state's liberal origins (Mirowski and Plehwe 2009; Tribe 2009, pp. 70, 73, 76). According to Rachel Turner (2008, pp. 4–5, 140), a fundamentally hostile attitude to the welfare state, as opposed to residual systems of welfare provision, is a defining feature of neoliberalism. In contrast, Ben Jackson (2010) points

[1]I follow the convention of using "liberal" with a small "l" as a generic term incorporating all varieties of an economic and political tradition, and with a capital "L" for the political party.

out that when the Mont Pèlerin Society was founded, men like Friedrich Hayek were willing to accommodate parts of the welfare state agenda into their thinking. Angus Burgin (2012, pp. 125, 153–155, 178, 185, 222) argues that it was only in the 1960s and 1970s that members of the society, influenced by Milton Friedman, became overtly hostile to the welfare state. In this article I compare the attitudes of six economists towards the welfare state to see whether, and how clearly, one can distinguish between neoliberalism and other forms of liberalism.

One problem in such an exercise is that all the key terms have more than one meaning. Neoliberalism has different strands, including Austrian economics, German ordo-liberalism, or, later, the Chicago school. The welfare state may be defined in terms of social services (education, health, housing, etc.) and cash transfers (pensions, unemployment and sickness benefits, family allowances, etc.), or by contrasting the rights of citizens with the status of pauperism under the old Poor Laws, or in terms of equality of opportunity for all citizens and more or less equitable distribution of resources through progressive taxation (Maddison 1984; Marshall [1965] 1985; Titmuss [1958] 1976, pp. 34–55). In the British case, the welfare state was also associated with a bipartisan commitment to maintain full employment. I approach the problem of definition in the same way as Arthur Balfour, an unusually intellectual British prime minister, who said that he could not define an elephant, but he could always recognize one when he saw one. Instead of attempting an all-encompassing definition of neoliberalism, I use Hayek as an archetypical neoliberal. Hayek devoted much thought to the British welfare state and he was an inspirational influence on British New Right thinkers (Barry 1984). The welfare state considered here is not an abstract concept but a particular example: the British one in a specific historical period. The advantage of this approach is that it makes it possible to show how the welfare state and economists' views about it changed over time.

William Beveridge's influential report *Social Insurance and Allied Services* set an agenda in 1942 for universal social insurance combined with health, housing, and educational services. Although it fell to the Labour government of 1945 to 1951 to implement much of his agenda, Beveridge had built upon selective social insurance and social services created by Liberal politicians before and immediately after the First World War (Beveridge 1942; Harris 1997; Thane 1996).[2] The welfare state, as it was conceived in the 1940s, was not obviously at variance with liberal values. On the other hand, as the welfare state expanded under both Labour and Conservative governments—expenditure on social services in the UK rose from 13.9% of GDP in 1955 to 20.2% in 1968 (Middleton 1996, p. 98)—and as its purpose became avowedly redistributive, Hayek was not alone among liberal economists in criticizing it.

The six economists discussed in this paper are on a spectrum from new liberal to neoliberal. At one end are Beveridge and John Maynard Keynes, both of whom had been linked with new liberalism before 1914. Beveridge's report stated that universal social insurance was affordable only with full employment. Keynes's *General Theory*

[2]The Liberals introduced state means-tested old-age pensions (1908) and compulsory national health insurance for most workers and unemployment insurance for some workers (1911), and, in coalition with the Conservatives, expanded unemployment insurance to most workers and made local authorities responsible for building houses (1919).

of Employment, Interest and Money (1936) provided the theoretical basis for the government's commitment in 1944 to maintain high and stable employment (Moggridge 1992, pp. 709–714). Hayek is at the other end of the spectrum: his book *The Constitution of Liberty* (1960) portrayed the British welfare state as a dynamic process leading to dependency, increasing public expenditure, enterprise-paralyzing taxation, and the growth of bureaucracy and loss of individual rights (pp. 305, 328). The other three economists might for various reasons and in varying degrees be regarded as neoliberals. Mirowski and Plehwe (2009, pp. 4, 428) take membership of the Mont Pèlerin Society or of a think tank linked to the Atlas Economic Research Foundation to be a litmus test of neoliberalism. John Jewkes was a founding member of the Mont Pèlerin Society and was president from 1962 to 1964. Lionel Robbins drafted the society's mission statement in 1947, but took no further part in its work and resigned in 1950 (Howson 2011, p. 664). Alan Peacock was never a member of the society, but from the 1960s was active in the Institute of Economic Affairs (IEA), a British think tank founded in 1955 with Hayek's encouragement.

Beveridge, Keynes, Jewkes, and Robbins all had experience of working in Whitehall by 1942. Beveridge had been director of Labour Exchanges at the Board of Trade from 1909 to 1916. Keynes had been a Treasury official in the First World War and was an adviser to the chancellor of the exchequer in the Second. Jewkes's wartime service included the Economic Section of the War Cabinet Offices and the Ministry of Reconstruction. Robbins succeeded Jewkes as director of the Economic Section in 1941. Peacock was not employed in Whitehall until 1973, when he was appointed chief economic adviser at the Department of Trade and Industry, but he specialized in public finance in his academic career and advised the Liberal Party in the 1950s and 1960s. Hayek, while at both the London School of Economics (LSE) and Chicago, was very much an outsider as regards British policymaking until the Conservative Party took up his ideas in the mid-1970s (Croham 1981). Whereas the British economists considered here were apt to believe that governments advised by men like themselves posed no threat to individual rights, Hayek was much more skeptical about state benevolence.

The paper is devoted to the following questions. First, how could Hayek believe he could accommodate elements of the welfare state agenda in his thinking? Second, why did he become increasingly critical of the welfare state, and how far did Jewkes, Robbins, and Peacock share his views? Third, how clear a distinction can be drawn between neoliberalism and other forms of liberalism in what was an important period in the evolution of the welfare state?

II. HAYEK'S *THE ROAD TO SERFDOM*

Hayek wrote in his book *The Road to Serfdom* (1944, pp. 89–90) that the state could, without risk to liberty or the market, provide everyone with a basic income that would give security against severe physical privation. He also thought that there was a strong case for social insurance to assist people in providing against sickness or accident. He was, however, concerned that social insurance might be used to make the market less effective. His views were subsequently incorporated into the Mont Pèlerin Society's mission statement, which included study of "the possibility of establishing minimum standards by means not inimical to initiative and the functioning of the market" (Hartwell 1995, pp. 41–42).

The system of social insurance in Britain when Hayek was writing *The Road to Serfdom* was designed to encourage self-help and to discourage dependency and malingering. Workers had to pay contributions to obtain the right to claim benefits. Coverage was restricted to the working class. Cash benefits were below the wages of the poorest workers and were payable for only limited periods. Free medical treatment was available to insured workers, but not their dependents. People of working age who did not qualify for national insurance benefits had to apply for means-tested assistance under the notoriously parsimonious Poor Laws. As part of government planning for postwar reconstruction, Beveridge (1942) recommended major reforms of social insurance, but there was little in his report to which Hayek could object. Beveridge extended social insurance to the whole population and increased benefits and old-age pensions. However, he did not wish to discourage individual responsibility or thrift. He recommended that employees' national insurance contributions should be flat rate, irrespective of income, and benefits and pensions should be entitlements, irrespective of recipients' means. People who failed to pay contributions would receive means-tested national assistance benefits. He proposed that all benefits and pensions should be at a "subsistence" level that was less than the "human needs" standard devised by Joseph Rowntree in 1936 to establish a poverty line for a social survey of York (Fiegehen 1977, p. 131). Although insured workers would be subsidized by employers' and Exchequer contributions to the national insurance fund, Hayek (1960, p. 303) recognized that Beveridge intended to encourage self-help and to limit redistribution of income.

Hayek's principal concern in *The Road to Serfdom* (pp. 26–31, 36, 79) was to defend the price system against advocates of central planning and direction. In particular, he feared that specific groups of workers would expect the state to guarantee their current position relative to other groups of workers. The government's white paper *Employment Policy* (1944) was drafted by civil servants and economists, including Jewkes and Robbins, who shared his concerns.[3] While incorporating Keynes's macroeconomics, it stated that maintenance of aggregate demand would keep employment high and stable only if wages were related to productivity and were flexible to take account of changes in industry, and that workers must be willing to change jobs. The white paper also referred to businessmen being guided in investment decisions by whether prices were likely to go up or down (Ministry of Reconstruction 1944, pp. 17–20). Again, there was little here to which Hayek could object. Indeed, during the drafting of the white paper Keynes supported Robbins in opposing controls on industry, saying that it should be the purpose of employment policy to provide a framework that would preserve the liberty and initiative of the individual in economic life.[4] On the other hand, Beveridge's private "report," *Full Employment in a Free Society*, published later in 1944 by the Liberal Party, put forward a number of ways in which

[3]Both Jewkes and Robbins were later critical of the Labour government's planning and controls from 1945 to 1951 (Robbins 1947; Jewkes 1948). Jewkes's book *Ordeal by Planning* was regarded by Hayek as the best discussion of the administrative coercion implicit in Labour's policies (Hayek 1967, p. 227).

[4]"Post-war Employment: Note by Lord Keynes on the Report of the Steering Committee," 14 February 1944, in Moggridge (1980, pp. 364–372, at p. 369).

full employment could be achieved, including direct control and deployment of labor, state control of the means of production, as well as Keynesian demand management. Although he became a Liberal MP in 1944, Beveridge was far from consistent in his attachment to liberal economics. Over the course of the 1930s and the 1940s he had moved uncertainly from a belief in a self-regulating market economy to a belief in state planning and control of production that was indistinguishable from that of many people in the Labour Party. By 1944 he did not believe that the kind of powers that the state had exercised during the war were incompatible with personal freedom, and he thought Hayek's critique of centralized planning in *The Road to Serfdom* was not in the least convincing (Harris 1997, pp. 312–322, 436–442).

Nevertheless, neither social insurance nor employment policy, as set out in the Beveridge report or the 1944 white paper, was necessarily inimical to individual initiative or the functioning of the market. Hayek feared that state intervention might develop over time in ways that would restrict individual freedom, but there was much in the welfare state agenda that he could comfortably incorporate into his economic thought. While hostile to the ideas of socialist Keynesians, like Nicholas Kaldor and Joan Robinson, who had helped Beveridge to write *Full Employment in a Free Society*, Hayek had little reason to quarrel with Keynes. Indeed, Keynes remarked to Hayek that *The Road to Serfdom* might have been even more robust than it was in its defense of the profit motive and of private liberties against advocates of planning.[5]

III. HAYEK'S *THE CONSTITUTION OF LIBERTY*

Under Conservative governments from 1951 to 1964 the British welfare state evolved in ways that departed from Beveridge's ideas about self-help and subsistence income. For example, he had recommended that national insurance benefits should be paid to the unemployed only if they were available for work and willing to undergo training after drawing benefits for a limited period, and that national assistance should be subject to behavior likely to restore earning capacity (Beveridge 1942, pp. 128–129, 141). In practice the unemployed could live off means-tested benefits indefinitely. From the later 1950s social investigators like Brian Abel-Smith and Peter Townsend argued that the concept of subsistence used by Beveridge should be replaced by one where poverty was defined as relative to average incomes (Townsend 1957; Abel-Smith and Townsend 1965). In 1959 the Conservative government decided that national assistance benefits should be increased in line with the standard of living of the community as a whole, rather than in line with prices, as hitherto (Atkinson 1991, pp. 129–131).

By 1956 Hayek believed more strongly than he had in the 1940s that piecemeal development of welfare policies could gradually subvert the market and with it the creative powers of a free society.[6] In 1960 he published a full-blown attack on the welfare state and Keynesian employment policy in *The Constitution of Liberty*. Although intended for an American readership—Hayek had moved from the LSE

[5]Letter to Hayek, 28 June 1944, in Moggridge (1980, pp. 385–388).
[6]"*The Road to Serfdom* after Twelve Years," foreword to American paperback edition published in Chicago in 1956 and reprinted in Hayek (1967, pp. 216–228).

to Chicago in 1950—the book drew heavily upon British examples. His starting point was that all monopolies, including centralized state provision of social insurance, tend to become inefficient. In his view the experts required to run increasingly complex systems of social insurance were prone to advocate more generous benefits, and electoral considerations encouraged the use of social insurance to redistribute income. What Hayek believed to be a wholly irrational objection to means testing led to people being paid benefits regardless of need. By the late 1950s national insurance benefits were financed on a pay-as-you-go basis. Beveridge had envisaged funding for future liabilities on an actuarial basis, but in 1954 the Treasury had decided that the national insurance fund should not be increased in proportion to its liabilities (Peacock and Peden 2014, pp. 5, 6–7). Hayek (1960) believed this change meant that, in a society where old-age pensioners were a significant and growing part of the electorate, politicians were tempted to raise pensions to win votes (pp. 294–297).

Hayek saw the free National Health Service (NHS) as an open-ended commitment with financial implications of similar magnitude to social insurance. Whereas the Beveridge report had estimated the annual cost of a national health service at £170 million, by 1956 the figure had risen to over £450 million. Proponents of a free NHS had claimed in the 1940s that medical services would partly pay for themselves by restoring earning power. However, Hayek (1960) pointed out that most hospital facilities were taken up by elderly or infirm people who would never work again. He added that the continuing advance of medical science meant there was no upper limit to what might be spent on the NHS (pp. 298–300, 513).

Britain's housing policy, in Hayek's view, created dependency on the state: first, through rent controls, maintained since the war, which discouraged maintenance by landlords, leading to decay of the housing stock; and second, by discouraging investment in the private rental market. The consequent shortage led to more and more social housing being built, with allocation by bureaucrats rather than through the market (Hayek 1960, pp. 343–346). He was also critical of what he saw as ever increasing dominance of the state in education, and commended a scheme put forward by Friedman whereby education vouchers would be given to parents to enable them to choose schools for their children, thereby breaking the monopoly of the public sector (p. 381).

Hayek saw the prospective political and economic consequences of the welfare state as increasing public expenditure, enterprise-paralyzing taxation, and the growth of bureaucracy with far-reaching powers and loss of individual rights (pp. 305, 328). He also argued that, whereas the 1944 white paper's goal of high and stable employment was a reasonable one, Keynesian policies had led to excess demand when the economy was at full employment, leading to a spiral of higher prices and wages, while the doctrine that the monetary authorities should expand the money supply to prevent unemployment at any given wage level led to higher inflation than previously experienced in peacetime. Inflation made it harder for people to save and prepare for old age, thereby increasing their dependence on the state (pp. 280–281, 324–328).

IV. OTHER CRITICS OF THE WELFARE STATE

Hayek's views on the welfare state by no means commanded full support among British liberal economists. Reviewing *The Constitution of Liberty*, Robbins agreed with some points—for example, regarding the detrimental effects of rent controls—but felt Hayek's fears about the long-term consequences of the welfare state were greatly exaggerated. Robbins's assessment of the achievements of the welfare state was much more positive than Hayek's. Comparing the health of citizens and their children at that time with what he could remember from forty years earlier, Robbins remarked that not all the improvement could be attributed to economic growth based on free enterprise; some was due to the social services, ill-conceived though these might be in some respects (Robbins 1961). Robbins was also more generous than Hayek in his ideas on higher education. In *The Constitution of Liberty* Hayek said that it was not obvious that everyone who had intellectual capacity for higher education should be provided with one by the state; there was a danger, he thought, of creating an intellectual proletariat who lacked suitable employment for their learning (Hayek 1960, p. 383). In contrast, Robbins's report on higher education in 1963 recommended university places should be increased by 1980 to accommodate the estimated number of young people who could satisfy the entrance requirements and who wished to be admitted. Robbins was impressed by arguments in favor of replacing student grants with loans, but decided against them because of the likely disincentive effect at a time when many parents were just beginning to acquire the habit of sending their children, especially girls, to university. He felt the arguments for loans would ultimately be hard to resist, but the report came down in favor of students continuing to have their fees paid by local authorities and to receive means-tested maintenance grants funded by the taxpayer (Robbins 1963a; Howson 2011, p. 889).

Peacock's response to *The Constitution of Liberty* was to say that he hoped at the Liberal Party's Summer School to prove that Hayek and others who asserted that the welfare state was a threat to liberty were wrong.[7] Peacock was himself a critic of the welfare state. Educated at St. Andrews University in the Scottish tradition of political economy, he was committed to what Adam Smith called "natural liberty," meaning freedom under the law to develop talents and interests, provided these did not conflict with the freedom of others. Peacock believed natural liberty was incompatible with state intervention to create economic equality, if that intervention conflicted with individual freedom. On the other hand, he had seen the effects of unemployment while growing up in Dundee in the 1930s and was accordingly attracted to Keynes's *General Theory* (Peden 2015). Peacock's time teaching at LSE from 1948 to 1956 briefly overlapped with Hayek's, but he was closer to the liberal-socialist James Meade, who believed in using the market mechanism for egalitarian ends, and to Frank Paish, who became the Liberal Party's official economic adviser in the 1950s. Peacock undertook the task of clarifying the Liberal approach to welfare while he was a member of the Unservile State Group, which was set up in 1953 with the aim of establishing a sound basis for the party's policies and which included the party's future leader, Jo Grimmond. Peacock's contribution to a cooperative volume, *The Unservile State: Essays in Liberty and Welfare* (1957), took as axiomatic that no one's opportunities to develop should be frustrated by material circumstances, and that therefore there was a good case for the state providing individuals with transfer payments such as family allowances, sickness benefits, and pensions, and financial support for access to health services, housing,

[7]Letter to *Guardian*, 4 August 1960, reprinted in Peacock (2010, pp. 139–140).

and education. However, he argued that health services, housing, and education need not be provided by state monopolies; instead, independent providers should be encouraged to provide competition for the public sector (Peacock 1957a).

For example, he believed that greater competition between private and state schools would raise standards in the latter. Like Hayek, he was attracted by Friedman's scheme for giving parents vouchers to cover the cost of educating a child (Peacock 1957a, p. 118). In a pamphlet written for the IEA, Peacock and Jack Wiseman (1964) put forward a proposal for non-transferable vouchers that would be used by parents to pay fees to private or state schools of their choice. The intention was to widen access to the best standards of education, and, as the vouchers would be subject to tax as ordinary income, poor parents would have received more assistance than the better off (pp. 35–36). However, the president of the Liberal Party, Nancy Seear, opposed the proposal, on the grounds that state paternalism (her word) was better than choice by uninformed parents; and that, while the voucher system would mean that good schools would get bigger and better, it would leave many schoolchildren in bad schools until these were eliminated. It was preferable, she believed, to put resources into improving below-standard schools. At a time when the Liberals were turning to the left, the vouchers proposal was rejected at the party's 1966 conference (Peacock 2010, pp. 179–180, 195–199; Sloman 2015, pp. 222–223).

Peacock believed that Liberals must assume that the large majority of individuals, once freed from poverty, were able to take their own spending decisions when guided by a free market, and that the true object of the welfare state, for a Liberal, was to teach people to do without it. For example, tenants of social housing should be allowed to buy the flats or houses they lived in (Peacock 1962). The increasing standard of living in Britain prompted Peacock and like-minded economists to suggest in an IEA report in January 1967 that fewer people should rely upon the state. For a given sum of money available for transfer payments, they argued, more generous aid could be afforded to people in need by removing the distinction between national insurance and national assistance, and by relating benefits to individuals' and families' circumstances. As things were, the report claimed, pensions paid to elderly people with no other income were lower than they would have been had the state not had to find money to pay pensions for everyone over retirement age, regardless of private pensions or other income they might have. Similar claims were made about family allowances and sickness benefits (Alexander 1967, pp. 13–14, 20–21). Peacock thus anticipated Margaret Thatcher's ambition to make the welfare state irrelevant to people on middle and high incomes, and to encourage them to look to market-based provision (Sutcliffe-Braithwaite 2012).

Peacock believed that most hospitals were natural monopolies, but thought that there was ample scope for competition between providers of routine medical and dental services (1957a, pp. 119, 126). Jewkes (1963) believed that the NHS, including hospitals, was inherently inefficient on account of the scale of the bureaucracy required, and that the principle of an NHS that was free to all patients acted as a disincentive for people to help themselves through insurance and private medical services. In publications written with his wife, Sylvia (1961, 1963), he challenged the argument, used by proponents of the NHS, that the pre-war medical system had been seriously defective and that nothing short of a centrally controlled free system was required. National health insurance by 1939 had covered about half the population. Higher-income earners were excluded, as were dependents of insured workers, and only a limited range of medical care was covered. On the other hand, people requiring hospital treatment who could not afford it received it free, either in a voluntary or municipal hospital; others were expected to pay what they could afford. Many working people subscribed to voluntary funds that gave them access to hospital treatment as of right. People who could not afford the services of a general practitioner could go to hospital outpatient departments. Jewkes did not claim that the pre-war system was perfect—and, indeed, many hospitals had been in financial difficulty in 1939—but he argued it was reasonable to believe that, even without the NHS, Britain would have come to enjoy wider and better distributed health services. In all other Western countries expenditure on health services had risen with national income, he observed, although Britain was almost unique in having a free service with fewer than one in ten of the population covered by private health insurance.

Jewkes and Peacock were hostile to monopoly, a traditional liberal concern. They wanted to maximize the use of market forces in health, housing, and education services, and to minimize bureaucracy and dependency. However, neither they nor Robbins shared Hayek's vision of the welfare state as a dynamic process threatening individual rights. That vision was related to Hayek's belief that Keynesian fiscal and monetary policies to maintain full employment had been inflationary. It is to that aspect of *The Constitution of Liberty* that we now turn.

V. EMPLOYMENT POLICY AND INFLATION

As a product of the Austrian school of economics, Hayek believed that the cause of unemployment was not lack of aggregate demand, but failure of relative prices and wages to adjust to the demand for labor and its supply in each sector of the economy. It was, he said, always possible to reduce unemployment temporarily by monetary expansion, but the employment thus created could be maintained only by continuing and accelerating inflation. Inflation, he thought, tended not only to preserve but to increase the maldistribution of labor between occupations, which must increase unemployment as soon as inflation ceased (Hayek 1978, pp. 124–127). When the annual increase in the retail price index rose from 2.5% in 1967 to 24.2% in 1975, Hayek claimed his prophecy that Keynesian employment policies would lead to an inflationary spiral had been fulfilled. The solution he advocated was to break the spiral by halting the increase in the money supply or at least by reducing the increase to the real rate of growth of output; and he would prefer to do so immediately, since he saw no advantage in gradual deceleration (Hayek 1975, p. 25).

Robbins did not share Hayek's approach. Like Hayek, he had opposed Keynes's proposals for increased public expenditure in the 1930s, but came to believe that the Austrian theory on which this opposition was based had been misleading in the Great Depression (Robbins 1971, pp. 152–155). Moreover, Robbins thought the theory of the inflationary gap set out in Keynes's *How to Pay for the War* (1940) was of fundamental importance in managing demand. Faced with inflationary pressure, a chancellor should reduce demand by raising taxation or reducing expenditure. Robbins, however, believed fiscal policy alone was a crude instrument. He pointed out that it relied upon economic forecasts that were frequently inaccurate, did not act directly on investment, and was inflexible, being tied to the chancellor's budget. Monetary policy, in contrast, could be applied at any point in the fiscal year, and should, he thought, be used in conjunction with fiscal policy (Robbins 1954, pp. 60–80). Unlike many, perhaps most, Keynesian economists, Robbins emphasized the importance of controlling the supply of money in the form of cash and bank deposits. In 1957 he served on a joint Bank of England–Treasury working party to study how bank credit could be controlled. The Bank reluctantly accepted his recommendation that excess liquidity in the banking system should be mopped up by requiring banks to deposit funds—to be known as Special Deposits—with the Bank, which it would lend to the Treasury. Special Deposits were an additional instrument used in the management of the economy in the Keynesian era from 1960 and had no direct link with, and did not anticipate, the monetarist policies of the Thatcherite era (Howson 2011, pp. 798–802; Robbins 1963b). While regarding control of the money supply as very important, Robbins said he would never call himself a full-blooded monetarist (Howson 2011, p. 1074).

On the other hand, he was hardly a full-blooded Keynesian. In the postwar period Keynesians tended to regard anything above 2.0% unemployment as unacceptably high, and to advocate wage fixing by the state as a solution to cost-push inflation. In 1954 Robbins suggested the definition of full employment should be having "as many jobs as there were applicants, *provided they were willing to go to them.*" He doubted if the commitment to full employment could be maintained if wages and prices continued to rise year by year, and recommended that demand should be managed to ensure high employment "*at wage rates not increasing more rapidly than productivity*" (Robbins 1954, pp. 18–40; italics in original). He believed an attempt by the state to control wages and prices could do more harm than good, by affecting the general working of markets, and could be justified only in a grave emergency. However, in November 1972, faced with the Heath government's failure to control monetary growth, and with inflation rising rapidly, Robbins reluctantly supported the introduction of a statutory freeze on wages and prices, since he believed that a deflationary financial policy alone would produce unacceptably high unemployment (Robbins 1971, p. 231; Howson 2011, p. 1031). Robbins was much more apprehensive than Hayek was about the effects of applying the monetary brakes.

Peacock (1957b) traced Keynes's influence on economic thought to two causes: first, experience proved that full employment without inflation would not be achieved automatically through the market system; second, Keynes had shown how inflation could be prevented through fiscal policy. Peacock was well aware that the economics of Keynes and Keynesian economics were not identical, quoting with approval the remark of the American economist James Duesenberry that "Keynes was the Kerensky of the Keynesian revolution." Peacock differed from socialist Keynesians by insisting that Keynes's writings were part of the liberal tradition, claiming they showed an abhorrence of state socialism and large-scale nationalization (Peacock 1958). Peacock's own thinking evolved over time: between the 1971 and 1976 editions of his textbook *The Economic Theory of Fiscal Policy*, he made substantial changes to take account of monetarist arguments, such as Friedman's permanent income hypothesis, but nevertheless assimilated them into an extended Keynesian system (Peacock and Shaw 1971, 1976). Both editions assumed an active fiscal policy was required to preserve economic stability.

Jewkes attached importance to structural factors in employment policy, and thought there was a danger monetarism might lead to a mistaken assumption that there could never be an occasion when increased public expenditure might be desirable to stimulate employment. He pointed out that unemployment rarely rose above 2.5% between 1945 and 1970, but inflation had become a serious problem only when governments in the 1970s had tried to use fiscal policy to expand demand in circumstances that the 1944 *Employment Policy* white paper had said would be inappropriate. The white paper had identified structural unemployment arising from a decline of a particular industry as one such that could be solved only by labor moving into different occupations. However, Jewkes believed, workers in council houses with rents below the market rate and complete security of tenure had been reluctant to move jobs. Regarding wages and prices, he cited Ernest Bevin, the trade union leader and wartime minister of labour, who, when introducing the white paper to the House of Commons in 1944, had said that the general level of wages ought to be related to productivity. That, Jewkes pointed out, had not been a feature of the postwar period, when wage increases had reflected trade union power, notably in coal mining and the car industry, where output per head had lagged most. Jewkes accepted that the money supply was the ultimate determinant of the price level, and that the natural rate of unemployment was a useful concept, but said the rate depended on complex interactions of economic, social, and institutional factors, which constantly varied and were incapable of exact measurement. It was not possible, therefore, to fix the money supply in relation to the natural rate. He thought the 1944 white paper's emphasis on labor mobility and the dependence of wage increases on improved productivity should be given greater emphasis than what the cruder forms of monetarism allowed (Jewkes 1978).

Hayek, Robbins, Peacock, and Jewkes shared a good deal on common ground regarding the microeconomic aspects of employment policy. However, unlike Hayek, Robbins and Peacock accepted Keynes's macroeconomic theory in relation to both unemployment and inflation, and Jewkes too believed that public expenditure might be required to counter unemployment. Robbins, Peacock, and Jewkes did not believe that the market, unaided, would provide full employment. For them, the state had a responsibility to protect citizens from dislocation in the market—a position that would be hard to square with Mirowski's definition of neoliberalism.

VI. CONCLUSION

To sum up, Hayek could accommodate elements of the welfare state agenda in his thinking in the 1940s because neither the Beveridge report nor the *Employment Policy* white paper was intended to restrict individual freedom or the functioning of the market. His criticism of the British welfare state in *The Constitution of Liberty* reflected his interpretation of postwar developments—an interpretation that Robbins and Peacock felt was exaggerated. Robbins, Peacock, and, arguably, Jewkes were closer to Keynes than to Hayek on employment policy. How clear a distinction, then, can be drawn between neoliberalism, as defined by Mirowski, and other forms of liberalism? Scholars can reasonably disagree about where on the spectrum of liberal economists between Beveridge and Keynes on the one hand, and Hayek on the other, one should locate neoliberalism. Robbins is identified by Rachel Turner (2008, p. 6) as a powerful exponent of neoliberalism, whereas Ben Jackson (2012, p. 49) believes Robbins was skeptical about, although sympathetic to, neoliberal ideology. Jewkes and Peacock, with their affiliations to the Mont Pèlerin Society and the IEA, respectively, and their ideas about dismantling much of the apparatus of the postwar welfare state, seem to be strong candidates for the appellation "neoliberal." However, their goals were better provision of health and educational services through alternatives to state monopolies. Their belief that citizens might be nurtured and protected in a more market-oriented welfare system than what had developed in Britain was not at odds with classical or new liberalism. Peacock, who was self-consciously in the tradition of Adam Smith, was not opposed to some redistribution through taxation and transfers to ensure everyone lived in reasonable comfort and could develop their talents (Peacock 1957a, pp. 116–117). From this point of view, a reduction in inequality was a means of enabling people to become full citizens, not an end in itself. Indeed, what Hayek and the other economists considered here had in common was a belief that the focus of the welfare state should be on enabling people to be independent citizens in a market economy.

Nothing I have said about British liberal economists disproves Mirowski's contention that there is a neoliberal political movement dedicated to the imposition of the unfettered discipline of the market on society. However, Robbins, Jewkes, and Peacock, while sharing some beliefs with Hayek, seem closer to classical liberalism than to Mirowski's characterization of neoliberalism. The litmus test that he and Plehwe apply for neoliberalism—that is, membership of the Mont Pèlerin Society or of a think tank associated with the Atlas Economic Research Foundation—does not take us very far. A litmus test, after all, establishes only whether something is acid or alkaline, two very broad categories within which there may be many variations, such as gas, liquid, or solid. As Mirowski says, neoliberalism and liberalism are polysemous words. Perhaps we need to start differentiating forms of neoliberalism just as classical and new liberalism are differentiated by appropriate adjectives. Certainly, a more nuanced approach than Mirowski's is required when studying why a range of liberal economists came to believe that the British welfare state should make more use of markets and pricing systems for registering preferences and apportioning resources.

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