

Empirical and Normative Macroeconomic Theory and Monetary/Fiscal Policy in the Twentieth Century: A Case of Keynes, Laski, Hayek

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Abstract

This historical case study analyzes the practical application of normative economic theory. Throughout the twentieth century, such theory significantly influenced both fiscal and monetary policies in Britain and the United States. Key empirical events that shaped the theory included the monetary inflation in Germany following the First World War, the subsequent stock market crash in the United States, and the economic depression that spread globally. Additionally, the rise of communism in Russia and the emergence of fascism in Italy and Germany were critical factors during this period. During these tumultuous times, three influential economists in Britain—John Maynard Keynes, Harold Laski, and Friedrich Hayek—played crucial roles in bridging normative economic theory and monetary policy. This study will provide a brief review of their contributions to transforming theoretical frameworks into actionable policies. Following this overview, we will develop an analytical technique for examining the interaction between economic theory and public policy.

Keywords

Economics, Macroeconomic Theory, Economic Policy, Normative Theory

1. Introduction

Two fundamental challenges to the discipline of economics (and to all the social science disciplines) have been desires: 1) to formulate valid theory about society but in a compartmental manner as silo-disciplines isolated from one another and 2) universal theory true of any society at any time. But can these challenges be

accomplished scientifically? Science requires theory to be validated by empirical observations. The discipline of history provides empirical observations of particular societies at particular times. Can such particular societal observations really validate generalized social science theories, even a general economic theory? The methodological problem is to draw general insights from histories, of which no two are the same nor ever exactly repeated. History never exactly recurs. So how can we learn scientific lessons—generalizations about societies for general theory?

Moreover, can a complete knowledge of any society be observed solely and wholly within any single discipline? And in any societal system (such as in an economic system), can scientific theory ever be completely independent of a political context? For example, in economics, are there ever failures of reality in an ideal market (e.g. market failures); or, instead, are there only failures of market theory?

As a case study about these two methodological issues (about silo-science and ideal theory), it is useful to review the history of economy theory in the twentieth century, about the long-running theoretical and policy disputes among three famous economists: John Maynard Keynes, Harold Laski, Friedrich Hayek (and also their schools of economists). We analyze this history to learn about an appropriate scientific methodology for economic theory to attain scientific validity—validity either as normative or empirical explanation.

The distinction between empirical and normative theories is fundamental to methodology in economics (and to any social science discipline). Empirical theory explains what really occurred historically in a societal context. Normative theory explains what should have occurred in that context.

For example, Friedrich Hayek wrote: “Contemporary events differ from history in that we do not know the results they will produce. Looking back, we can assess the significance of past occurrences and trace the consequences they have brought in their train. But while history runs its course, it is not history to us. It leads us into an unknown land, and but rarely can we get a glimpse of what lies ahead. It would be different if it were given to us to live a second time through the same events with all the knowledge of what we have seen before. How different would things appear to us; ... Yet, although history never quite repeats itself, and just because no development is inevitable, we can in a measure learn from the past to avoid a repetition of the same process” (Hayek, 1944).

The goal of social science theory, particularly economic theory, is to learn from the past in order to properly guide the policy future.

2. Background

It is important to understand that, in economic history, there has always been a basic connection between government fiscal/monetary policy and capital macro-economic theory. For example, as Gillian Tett wrote: “How did the word ‘capitalism’ arise? If you ask most investors that question today, they might mutter about markets, commerce and Adam Smith. But... the term actually emerged first in 18th-century Europe in connection with war finance. Capitalism began as a French word

(capitalisme) but was used initially to refer to several largely British problems... the 18th-century system of war finance. In France, someone who lent money to a branch of the French royal government was called a capitalist (capitaliste)... On one level, this is just an amusing quirk of history. But it should also prompt serious reflection today” (Tett, 2024).

One reflection is the problem of public understanding of the true cost of government, particularly in wartime. Gillian Tett wrote: “A first reflection is that history shows that governments almost never tell voters the true cost of war, or how they intend to pay for it. Exceptions exist. In 1940, for example, John Maynard Keynes published a clearheaded pamphlet entitled *How to Pay for the War*” (Tett, 2024).

Another important point is on growth of government debt. Gillian Tett wrote: “The second lesson is that, even if costs are eventually wiped out via tax increases, inflation or plunder, there is usually a surge in debt. The Watson Institute estimates that in the U.S., there has been \$8tn in military outlay since 2001, which was ‘paid for almost entirely by borrowing’. Absent early repayment via massive tax rises, miraculous growth and/or default, interest payments could total over \$6.5tn by the 2050s” (Tett, 2024).

And a third point is about innovation. Gillian Tett wrote: “Third, the shock of war not only encourages heavy state economic intervention, but financial and technological innovation, too. In 1694, for instance, the British government embraced the idea of central banking to fund war. In the 1940s, the launch of American ‘war bonds’ helped to launch a retail market for Treasuries. The Second World War also led to the British and American governments developing financial repression policies. Today, experiments are being mooted to securitize the proceeds of seized Russian assets for Ukraine” (Tett, 2024).

3. Historical Case Study: Keynes, Laski, and Hayek on Macro Economic Theory and Fiscal/Monetary Policy

It is thus useful to examine exactly how monetary/fiscal policy and macro-economic theory historically have interacted. To do this we will analyze the historical case in the twentieth century of the influence of three macro-economic theorists (Keynes, Laski, Hayek) on the fiscal/monetary policies of Britain and America.

Kenneth Hoover summarized this history: “At the opening of twenty-first century, politics in the West have come to a curious pass. The partisans of the market are everywhere heard, while the partisans of government are muted and defensive. A half century ago, political discussion (about monetary policy) was quite the opposite... During the centuries’ third quarter, the dominant belief was that wise regulation of the relations between government and market would end depressions and open the path to a more progressive society. By the end of the twentieth century, the pendulum had swung nearly all way in the market’s favor... The decades from the 1920s through the 1940s have been termed the ‘age of Laski’ by the historian Max Beloff. Economist Milton Friedman labeled the 1950s through the 1970s

the ‘age of Keynes’ and the remainder of the twentieth century the ‘age of Hayek’” (Hoover, 2003).

Keynes, Laski, Hayek were intellectual rivals but also colleagues. Kenneth Hoover wrote: “Keynes, Laski and Hayek were colleagues and rivals from the 1920s through the 1940s. Laski’s advocacy of a socialist policy culminated in the Labour Party’s victory in England in 1945... Yet also internationally in 1945, the ‘interventionist government model’ offered by Maynard Keynes achieved worldwide significance in the then Bretton Woods agreement (on the postwar financial order) and with the creation of the International Monetary Fund. ... But by 1980, a third phase appeared (as a reaction against government and a celebration of laissez-faire capitalism) with the advent of Margaret Thatcher (in Britain) and Ronald Reagan (in America). Hayek was Thatcher’s avowed intellectual mentor. Hayek was a hero to Reagan and received the Medal of Freedom from Reagan’s heir, George Bush” (Hoover, 2003).

4. Historical Case Study Continued: John Maynard Keynes

In 1902, reading classics and mathematics, Keynes attended King’s College in Cambridge; but he was interested in economics. Kenneth Hoover writes: “The modern vocation of economist had been invented by Alfred Marshall, Keynes’ great predecessor at Cambridge, for the purpose of establishing a secular morality. Marshall argued that by opening decisions about the use of resources to analysis, rather than leaving them to the impulses of the self-interested, there would be the possibility that ethics, moral principles, could enter into such calculations. In a pedantic sense, Keynes was not a formally trained economist. He had taken the Mathematics Tripos in 1905... His path to greatness opened immediately on graduation. He placed second in the Civil Service Examination among 104 candidates... Coming second in the exams, he entered the India Office... The classic economic issues of ‘protectionism and free trade’ and of ‘monetary stabilization’ were everyday fare for the freshly minted prodigy, who would never set foot on the Indian subcontinent” (Hoover, 2003).

Keynes’ early experiences in the civil service would influence his emerging economic views. Kenneth Hoover wrote: “The India Office was an excellent tutorial in the practical dimensions of economics... The accoutrements of economic expertise were picked up along the way; the classic Adam Smith’s *Wealth of Nations* was not read by Keynes until 1910... Keynes left the India Office, going back to Cambridge, after two years and having written a short economics book, entitled *Indian Currency and Finance*... At the tender age of twenty-five, he had become a fellow of his old school, King’s College, Cambridge... Two years later, in 1911, he became the editor of the distinguished *Economic Journal*... He was to remain editor for thirty-three years” (Hoover, 2003).

Although not trained as an economist, Keynes’ interests, experiences, and publications were forming him into a prominent economist. World War I intervened in Keynes’ life. Kenneth Hoover wrote: “Brought back into the government in 1915

by World War I, this time to the Treasury Department, Keynes became a staff member in managing the financing of the war effort... For all his skepticism (about institutions), the few years in the Treasury let him see the utility of an institution that could confront ‘wickedness’ and ‘enthusiasm’, even if it did so unimaginatively... Maynard Keynes was excused from the most onerous of the grim realities of the war, the draft, by virtue of his work in the Treasury Department... As the war dragged toward its bitter conclusion, Keynes rose in the estimation of his Treasury colleagues. His competency as an analyst came to the fore and opened a new community (to him), this one in the world of ‘public policy’... Keynes was the British Treasury’s chief representative to the Supreme Economic Council at the Versailles Peace Conference” (Hoover, 2003).

But Keynes’ advice to the Council and the actions of the Council differed. Kenneth Hoover wrote: “Keynes put forward an audacious plan that involved minimal reparations geared to productive capacities and the recovery of Germany, within the context of a union of European powers. He proposed that revenge be subsumed by the need to ‘seek the recovery and the health of Europe as a whole’. But at Versailles, Keynes’s moderate counsel failed utterly to stem the fury of the Allies... In despair, Keynes quit the British delegation, three weeks before the Versailles agreement was signed. Keynes was exhausted and embittered—but relieved of complicity in the deeply flawed Versailles result” (Hoover, 2003).

In 1919, Keynes published his view of the Versailles treaty in a book, *The Economic Consequences of the Peace*. He criticized the Western leaders, and the book began Keynes’ public fame. Kenneth Hoover wrote: “Keynes saw Versailles as the triumph of political passion. He wrote: ‘vengeance, I predict, will not limp. Nothing can then delay for very long (a coming) final civil war between the forces of reaction and the despairing convolutions of revolution’” (Hoover, 2003).

The “*forces of reaction*” Keynes described were the “*financial and territorial penalties*” which the Allies loaded upon Germany. The “*convolutions of revolution*” were to become the “*fascist dictatorships*”—which later emerged in Italy and Germany. Also, following Keynes’ prediction of a “*final civil war*, this did become *World War II*”. The “convolutions of Fascism” aimed to “conquer democracies and liberal markets”. *In Keynes’ foresight about the consequences of the Versailles Treaty, we can see an example of why Gillian Tett’s “cautions” matter about the relations between economic theory and political ideals, especially in times of war.*

After the end of the First World War, economic collapse, as depressions, next shaped Keynes’ experience. Nicholas Wapshott wrote: “The American stock market crash of October 1929 was to change everything. As the world was hurled into financial turmoil, rulers and the governed alike demanded an explanation for what was happening and a fast route out of the mess. The hedonistic Roaring Twenties had careered into a slump and fallen headlong into what was to be a long decade of depression. The world was on the brink of ruin, with no end in sight to the twin afflictions of mass unemployment and grinding poverty. In the terrible new climate of hopelessness and despair, Keynes, the optimist, was at hand to offer a novel and

clear way out of the mire” (Wapshott, 2012).

As an economist, Keynes focused economic ideas on financial markets rather than on production markets. Keynes saw that the traditional macro-economic theory of market perfection (with prices set in by a supply-demand equilibrium) might empirically occur in production but seldom in financial markets. Financial markets were different from production markets. Kenneth Hoover wrote: “Keynes foresaw that weakening economies by inflating currencies undermines the whole basis for the political order”. Keynes wrote: “Inflation will confiscate arbitrarily and, while the process impoverishes many, it actually enriches some... who are ‘profiteers’: ... This apostasy that would take Keynes into battle against the received wisdom of political economy though the twenties and thirties. Keynes, as an economist had arrived on the stage of public affairs; and he would not leave it until he became, as an economist of all things, *a star*” (Hoover, 2003).

The 1930’s depression began in the United States but spread into Europe and Asia. The empirical reality of this “Great Depression” convinced Keynes that new theory in economic was required, new normative theory. He proposed a “macroeconomic theory” which focused on an economy from above, rather than micro-economics of a liberal market adding up to the economics of a whole economy. Robert Hoover wrote: “The depression revealed to all the fecklessness of conventional economic analysis... In 1936, Keynes formulated published *The General Theory...* which detailed a system of macroeconomics that would permit the regulation of the economy so that massive unemployment would never again become a problem” (Hoover, 2003).

The two historical events of the “1930’s depression” and of the “1940’s world war” convinced Keynes of the fundamental interconnectedness between economic theory and political policy. Robert Hoover wrote: “For Maynard Keynes, World War II was a logical consequence of the failures of the Versailles settlement. The inability of Western leaders to deal with reparations and the depression in any more than patchwork fashion led to the rise of fascism in Germany and in Italy. The British political establishment suffered a body blow with the discrediting of appeasement following the Munich Agreement of 1938. Chamberlain’s failure to prevent the outbreak of the war brought once again, into full view, the profound weakness at the heart of the British polity” (Hoover, 2003).

In 1939, the Second World War began with Nazi Germany’s invasion and conquest of Poland. Keynes again served in the British Treasury Department, now as a senior policy maker. He helped guide British economic and fiscal policy during the war. Robert Hoover wrote: “As the new World War began, Keynes’s response was threefold: a salvation operation designed to preserve Britain’s position in the world..., the adaptation of war economy measures to domestic schemes, and creation of an institutional framework for international monetary stability... Macroeconomics had taken over (in the British Treasury) from its prior focus on balancing the public accounts. Here was the initial triumph of (Keynes’s book) *The General Theory*. Whis is more, it worked. Inflation was contained... between 1941 and 1945”

(Hoover, 2003).

In the *General Theory*, Keynes tried to find a solution to the problem business cycles and employment. Nicholas Wapshott wrote: “Keynes assumed that a state of equilibrium would be reached where savings and investment were equal and prices were stable, whatever the interest rate set by the central bank, and at that time there would be full employment... Keynes also returned to the thorny problem of fixed exchange rates and the role they played in promoting the booms and busts of the business cycle. He suggested that as long as the gold standard persisted, central banks would not be able to manage credit so that savings and investment were kept equal, as they would instead be using interest rate policy to maintain the currency at the fixed rate” (Wapshott, 2012).

Keynes was trying to explain how economic phenomena (e.g. savings, investment, bank rates) could impact employment in an economy. He explained that unemployment could result from the influence of the bank rate upon business costs, which led to unemployment. Nicholas Wapshott wrote: “Keynes explained the role the bank rate, the interest rate fixed by the Bank of England, played in managing the economy... The imposition of high interest rates leads to a contraction (reduction) in investment and a fall in prices, while a reduction in rates provides the circumstances for a boom. While this arrangement worked in the long term when there was a favorable trade balance and prices and costs could rise over time, it was catastrophic when a downward adjustment of costs was necessary... The downward adjustment through severe unemployment leads to cuts in money wages... When savings and investment were out of kilter, monetary pressures in the form of high interest rates lead to an increase in the cost of borrowing to businesses and could only put downward pressure on profits and costs, such as wages. The result was unemployment” (Wapshott, 2012).

Next, after the end of the Second World War, Keynes became influential in establishing policies and institutions for stability and growth in international fiscal policies. Robert Hoover wrote: “Keynes primary role was to take him to center stage as the wizard of international stature who could fashion the institutional framework of the postwar recovery. In 1944, the Bretton Woods conference laid the foundations of a new order in international political economy... Keynes advocacy... persuaded the British government to ratify the agreements for the International Monetary Fund (IMF) and the Bank for Reconstruction and Development in December of 1945... Altogether, it was a heroic victory for Keynes’s grand plan” (Hoover, 2003).

In this historical case on the interaction of economy theory and policy in the twentieth century, we have reviewed how the first major economist, John Maynard Keynes become an international star of economics & policy. Next, we review how two more of his economic colleagues, Harold Lasky and Fredrich Hayek (1944) also became stars, but in the later years of the twentieth century.

5. Historical Case Study Continued: Harold Lasky

Harold Lasky grew up in a Jewish community in Britain but, experiencing discrimi-

nation, had a life-long determination to eliminate inequality in society. Kenneth Hoover wrote: "...the youthful Laski cast his searching eye upon the liberal Jewish establishment of which his parents were an integral part. He found in it a mask for injustice, and he set out to remove the curse of inequality from the large society... Laski learned early to distinguish sharply between the mundane, imperfect world of his Manchester surroundings and 'the more rational and just world that could be attained'" (Hoover, 2003).

Then, against the wishes of his parents, Laski married a non-Jewish girl. Kenneth Hoover wrote: "After the passage of Harold's eighteenth birthday, he and Frida eloped to Scotland... Frida was sent back to Glasgow where she had a job. Frida's refusal with Laski's support to convert to Judaism further alienated his parents. Laski, already accepted at Oxford, had to agree to live separately from Frida until his degree was completed... Laski carried his enthusiasm for Frida's progressive causes to Oxford... He studied politics and history under the tutelage of H. A. L. Fisher and Ernest Barker. Fisher, mentor to a generation of Labour politicians, brought together idealism and a commitment to political involvement... Laski found himself in a political commitment struggling with the contrary tensions of socialism and liberalism" (Hoover, 2003).

Laski graduated from New College, Oxford in 1914, the year World War I began. He was opposed to war and accepted a faculty appointment in McGill University in Montreal, Canada. At McGill, Laski wrote articles for political magazines and then had an opportunity to go to Harvard University in the United States. Kenneth Hoover wrote: "A fortunate encounter with a friend of Harvard Law School's Felix Frankfurter led to an immediate friendship with the young professor and an appointment to Harvard's faculty in 1916 followed... His move to the Harvard faculty at the beginning of America's involvement in the war may be attributed to his uncanny appeal for eminencies such as Oliver Wendell Holmes, who came to regard him as a son... Laski began to do paid writing for progressive magazines and journals of opinion... He became closely involved in the editorial work of the *New Republic*... the flagship of progressive thought... Laski formulated a view... detaching the notion of sovereignty from the state as a political organization. Laski argued that sovereignty is the will of the people" (Hoover, 2003).

After the war, Laski returned from America to Britain, taking a faculty position at the London School for Economics (LSE). There Laski continued to develop his vision of modern economy as a struggle between labor and capitalists. Kenneth Hoover wrote: "... at the invitation of Sidney Webber, Laski had become a candidate for the LSE faculty... bringing to LSE a rising progressive intellectual... Laski saw World War I as a tragedy of capitalism, fought by regimes of discredited aristocracies and capitalists at the expense of the working class... From the struggles for suffrage through to the strikes and socialist upheavals in Britain, Europe, and the United States during the twenties, Laski saw the working class on the rise against an increasingly inept cynical and pro-fascist structure" (Hoover, 2003).

6. Historical Case Study Continued: Friedrich Hayek

Friedrich A. Hayek (1899-1992) was born in Vienna and obtained two doctorates from the University of Vienna, in law and political economy. He studied under Ludwig von Mises at the Austrian Institute for Business Cycle Research. From 1929 to 1931, Hayek was a lecturer in economics at the University of Vienna. In 1929, Hayek published first book, *Monetary Theory and the Trade Cycle*. In 1931 Hayek was made Tooke Professor of Economic Science and Statistics at the London School of Economics, and in 1950 he was appointed Professor of Social and Moral Sciences at the University of Chicago. In 1962, he was appointed Professor of Political Economy at the University of Freiburg, where he became Professor Emeritus in 1967. Hayek was elected a Fellow of the British Academy in 1944, and in 1947, he organized the conference in Switzerland which resulted in the creation of the Mont Pèlerin Society. He was awarded the Nobel Prize in Economics in 1974 and was created a Companion of Honor in 1984. In 1991, George Bush awarded Hayek the Presidential Medal of Freedom. His books include: *The Pure Theory of Capital*, 1941, *The Road to Serfdom*, 1944, *The Counter-Revolution of Science*, 1952, *The Constitution of Liberty*, 1960, *Law, Legislation and Liberty*, 1973-9, and *The Fatal Conceit*, 1988.

Hayek was born in Austria, at a time near the end of the Austria-Hungarian Empire. Kenneth Hoover wrote: “Friedrich Hayek came from a privileged home in Vienna. But the comfort and tranquility of Hayek’s upbringing were sharply disrupted by his World War I service in the Austro-Hungarian Vienna army. Just sixteen years old when he entered in the spring of 1917, the young cadet was charged with coordinating communications within his unit of field artillery. He was placed amid the disaster on the Italian front. As a very young officer, he saw at first hand the inefficiency and confusion of a multinational army engaged in trying to save a decaying empire” (Hoover, 2003).

At the London School of Economics, Hayek’s first talk was entitled, “Theories of the Influence of Money on Prices”. Nicholas Wapshott wrote: “Hayek derided attempts to establish direct causal connections between the total quantity of money, the general level of all prices and the total amount of production... The true key to understanding economic activity, Hayek argued, was the choices individuals made, which were so many and diverse they could not be easily measured” (Wapshott, 2012).

Hayek’s focus in the role of money in an economy was in contrast to Keynes’ focus on employment. Also, Hayek’s idea that there were no causal connections between the quantity of money and production in an economy, meant that it was not possible for government to properly intervene in an economy to increase employment. This non-intervention was just what Lionel Robbins and William Beveridge, who were running London School of Economics, wanted to hear. Nicholas Wapshott wrote: “Hayek scored a bull’s-eye with his audience. Here at last was a cogent, convincing repudiation of Keynesian interventionist notions. Hayek showed that the remedies coming from Cambridge, which appeared so plausible, were

riddled with logical flaws. Having the best of intentions was not enough. Addressing the symptoms of a depressed economy by investing with borrowed money only made matters worse. Instead, Hayek offered a sober remedy of his own: forget about quick fixes, the uncomfortable truth is that only time will cure an economy in disbalance. Beware smooth-talking doctors, such as Keynes, who offered a quick cure, for they are charlatans, snake-oil salesmen, and quacks. Every short cut only leads back to the start. There are no soft options. Only the long haul will provide a true recovery. The market has its own logic and contains its own natural remedy... Hayek believed that for an economy to work most effectively it was essential that money operate as a neutral factor” (Wapshott, 2012).

During the 1930s, after the collapse of the Austrian Hungarian Empire and the chaos in Germany, Hayek next watched with horror, the rise of Nazism in Germany. Nicholas Wapshott wrote: “Through the early 1930s, Friedrich Hayek also watched events unfolding in Germany with a growing sense of foreboding. Before long the rise of the Nazis would long lead to the absorption of Austria into the Third Reich in the Anschluss Österreichs of 1938. Hitler’s public works program of road building and the manufacture of war materiel, backed by the full terror of the Nazi state, was (seen by Hayek as) a cruel parody of what Keynes was proposing. But Hitler’s direction of the German economy would prompt Hayek to think beyond economics to consider the importance of the free market in ensuring a free society. Just as his experience of rampant inflation had underpinned his belief in the Austrian School theory of capital, so too did his sympathy with the plight of those under Nazi tyranny, including his close family, lead to a broader philosophical understanding of how denial of the free market could lead to totalitarianism” (Wapshott, 2012).

Then, when World War II was ending, Hayek wrote and published his famous book, *Road to Serfdom*. Gavin Jackson wrote: “In 1944, the Austrian-born economist Friedrich Hayek displaced to Britain, was disquieted by his leftwing academic peers. As Hayek saw it, their political philosophy committed the same error as the fascism that was ravaging his homeland. He wrote that the desire to plan an economy centrally was—in what became the title of his most famous book—The Road to Serfdom: ‘many who sincerely hate all of Nazism’s manifestations are working for ideals whose realization would lead straight to the abhorred tyranny’. Hayek cast fascism not as a reaction to progressive success, but as its natural endpoint” (Jackson, 2024).

This book would make Hayek famous; and his new fame was instantaneous in America: Kenneth Hoover wrote: “In the U.S., the Book-of-the-Month Club selected the *Road to Serfdom* for its list; Reader’s Digest published an edited version and the Scripps-Howard newspapers printed a summary. The National Association of Manufacturers recommended the book to its members... In 1947, Antony Fisher, an enthusiastic reader of the Reader’s Digest condensed version of ‘Serfdom’, found his way to London School of Economics and... found his hero, Hayek... Nearly a decade later, Fisher, now a wealthy chicken farmer, fulfilled his dream

and formed the Institute of Economic Affairs (IEA) specifically to counter the legacy of Laski and the Fabian Society. The IEA was destined to play a major role in advancing Hayek's free market ideas and encouraged the development of a worldwide network of privately funded ideologically conservative think tanks" (Hoover, 2003).

Wealthy Americans also financed Hayek's appointment to a U.S. academic position, bringing him into contact with some U.S. economists. Kenneth Hoover wrote: "In 1950, Friedrich. Hayek took up his Volker-financed position as professor of social and moral science at the University of Chicago and remained there until 1962. This brought him into close contact with Milton Friedman and the developing 'Chicago School' of free market economists" (Hoover, 2003).

7. Analysis—Hayek and Laski

Laski was a socialist, of the kind about which Hayek wrote. And in Britain after World War II, a Labor government instituted a limited form of socialist government. But this socialist form was later rejected under conservative governments beginning with Thatcher. Then, Laski's influence on Britain's economic thought disappeared; and Laski's socialist ideas were never popular in the United States.

Laski had seen a modern economy as a struggle between capital and labor. But Laski never endorsed communism. Kenneth Hoover wrote: "Laski developed the theory of pluralism as a way of bowing to the intractability of various interests without giving up on democracy. Laski wrote that 'freedom is incompatible with the present system of property; for its result is a concentration of power... making the average citizen ineffective (politically)'. Laski argued that the freedom to accumulate property meant the loss of freedom by the propertyless to participate (politically). These ruminations seemed to lead straight to Marxism. But, Laski feared... revolution... Laski was casting his lot more directly with Labour... Mass unemployment, unprecedented, in living memory, was afflicting the war-ravaged working classes. By 1926, rising union militancy, particularly in the coal mines, erupted in the worst year for strikes in British history" (Hoover, 2003).

In 1945, as World War II ended, the British conservative party under Prime Minister Winston Churchill lost control of the government to the Labour Party, and Clement Attlee became prime minister. Laski's support of labor enabled him to exert some political influence on the new government. Kenneth Hoover wrote: "Throughout the war, Laski had been active in the National Executive Committee (NEC)... Laski's rise to the pantheon of Labour leaders placed him at the center of the election effort in 1945... But Labour Prime Minister Attlee read the public mood better than the doctrinaire Laski, The Labour Party had succeeded in part by attracting the moderates and by resisting the radicalism of the communist left... Attlee, burdened now with the all too real responsibilities of domestic transformation and foreign stabilization was exasperated by Laski's speeches, letters, and articles all advocating a more leftward course different than the one taken of the elected government... Attlee's stinging rebuke prompted the members of the cabinet to move

to take over the NEC... Laski used his valedictory as outgoing NEC Chair to argue for an internationalist socialism... Laski's career as a leader of the Labour Party was now over" (Hoover, 2003).

Laski had been an important member of the British Labour Party during and after World War II. But his advocacy of a democratic "socialism" was discredited by the harsh terror of Stalin's Communist Party, controlling both Russia and Eastern Europe. Laski's total focus in politics rather than on economics left little impact on macroeconomic theory—except to include "*full employment*" as a major goal of any economic system. Kenneth Hoover wrote: "In Harold Laski's rebellion against capitalism, we search in vain for any particular understanding of the workings of an economy. Laski never really confronts the questions of the ways that scarcity can be overcome, and competing preferences resolved... Had Laski examined the processes of entrepreneurship and wealth creation as carefully as he searched out rationales for reconciling the institutions of government with the political aspirations of the working class, he might have assembled a lasting contribution to political and economic theory" (Hoover, 2003).

8. Analysis—Hayek and Keynes

The differences in ideas between Keynes and Hayek centered upon two disagreements. The first was about whether or not a macroeconomics theory was possible. The second was about whether or not government intervention could ease the burden of unemployment in economic recessions. Nicholas Wapshott wrote: "In his book, *The General Theory*, Keynes believed an economy could best be understood by grasping the big picture, looking from the top down at aggregates of such elements of the economy as supply, demand, and interest rates. In contrast, Hayek was stuck in what came to be known as 'microeconomic' thinking, looking at the different elements such as costs and value that made up an economy" (Wapshott, 2012).

Hayek and Keynes were colleagues but also fierce competitors. It was in 1928, when Hayek first met Keynes. But this was just before the U.S. stock market collapse. Nicholas Wapshott wrote: "Between Hayek's first meeting with Keynes in London in 1928 and Hayek's arrival to deliver his four lectures in London in February 1931, a cataclysmic event took place that would completely change the stakes of their impending debate. The Wall Street stock market crash of October 1929 was an unprecedented economic disaster. The scale of the horror unleashed by the subsequent collapse of the American economy was to provoke a line of practical questions to economists. What caused the crash? What lessons can be learned to prevent it from happening again? And what can be done to alleviate the misery of unemployment unleashed by the catastrophe?" (Wapshott, 2012).

The two empirical experiences of 1) the 1930's world depression and 2) the rise of fascism in Italy and Germany—both impacted the economic ideas of Keynes and of Hayek (1944) but differently. Nicholas Wapshott wrote: "It was not at all obvious at the time how far the effects of the crash would spread to the rest of the

world economy or what the political ramifications of the disaster would be. In the months and years ahead, however, Keynes would find himself well placed to advance his radical views. Not only was he concerned with promoting pro-employment policies through his journalistic and political activities, but his theories appeared to provide an intellectual justification for attempting to create jobs through public works. Hayek's rejection of Keynes's theories, and, by association, his rejection of the most common prescriptions for job creation, were to seem increasingly out of touch with public sentiment, as the crash turned to depression and as unemployment on both sides of the Atlantic began to mount... The battle lines between Keynes and Hayek were thus drawn. Keynes believed it was a government's duty to do what it could to make life easier, particularly for the unemployed. Hayek believed it was futile for governments to interfere with forces that were, in their own way, as immutable as natural forces" (Wapshott, 2012).

Keynes' idea was that some "social processes" could occur in a liberal free market with government intervention that would assist in reaching full employment. Hayek's ideas was that there was a "natural process" always in a liberal free market about which government policies should never try to interfere, letting employment fall to where it may, in a natural process. Nicholas Wapshott wrote: "Keynes rejected (Hayek's) adherence to the free market as an inappropriate application of Darwinism to economic activities. Keynes argued that a better understanding of the workings of an economy would allow responsible governments to make decisions that could iron out the worst effects of the bottom of the business cycle. Hayek concluded that knowledge about how exactly an economy worked was difficult, if not impossible, to discover. Attempts to form economic policy based on such evidence were, like a barber practicing primitive surgery, likely to do more harm than good. Keynes believed that man had been placed in charge of his own destiny, while Hayek... believed that man was destined to live by the natural laws of economics, as he was obliged to live by all other natural laws. Thus, the two men came to represent two alternative views of life and government" (Wapshott, 2012).

The influences of Keynes and Hayek on economic theory turned out not to be important to economics, basic differences in the interface between economic theory and political theory, "*political economics*".

For example, Hayek's most famous book, *Road to Serfdom*, begins by declaring the work as one of "politics" and not "economics". Friedrich Hayek wrote: "When a professional student of social affairs writes a political book, his first duty is plainly to say so. This is a political book... The author has spent about half his adult life in his native Austria, in close touch with German thought, and the other half in the United States and England. In the latter period, he has become increasingly convinced that some of the forces which destroyed freedom in Germany are also at work here. The very magnitude of the outrages committed by the National Socialists has strengthened the assurance that a totalitarian system cannot happen here. But let us remember that 15 years ago the possibility of such a thing happening

in Germany would have appeared just as fantastic not only to nine-tenths of the Germans themselves, but also to the most hostile foreign observer. There are many features which were then regarded as ‘typically German’ which are now equally familiar in America and England, and many symptoms that point to a further development in the same direction: the increasing veneration for the state, the fatalistic acceptance of ‘inevitable trends’, the enthusiasm for ‘organization’ of everything (we now call it ‘planning’)” (Hayek, 1944).

The connection between economics and politics is that “socialism” of an economy (as the control of government over production) leads inevitably to tyranny. Friedrich Hayek wrote: “In the democracies at present, many who sincerely hate all of Nazism’s manifestations are working for ideals whose realization would lead straight to the abhorred tyranny. Most of the people whose views influence developments are in some measure socialists. They believe that our economic life should be ‘consciously directed’, that we should substitute ‘economic planning’ for the competitive system. Yet is there a greater tragedy imaginable than that, in our endeavor consciously to shape our future in accordance with high ideals, we should in fact unwittingly produce the very opposite of what we have been striving for?” (Hayek, 1944).

Hayek saw a direct connection between planning a centralized economy and power over the population. Friedrich Hayek wrote: “In order to achieve their ends the planners must create power—power over men wielded by other men—of a magnitude never before known. Their success will depend on the extent to which they achieve such power. Democracy is an obstacle to this suppression of freedom which the centralized direction of economic activity requires. Hence arises the clash between planning and democracy. Many socialists have the tragic illusion that by depriving private individuals of the power they possess in an individualist system, and transferring this power to society, they thereby extinguish power. What they overlook is that by concentrating power so that it can be used in the service of a single plan, it is not merely transformed, but infinitely heightened. By uniting in the hands of some single body power formerly exercised independently by many, an amount of power is created infinitely greater than any that existed before” (Hayek, 1944).

Hayek also argued that employment in a democracy with a liberal market created greater wealth for labor than in any tyranny. Friedrich Hayek wrote: “In every real sense a badly paid unskilled workman in this country has more freedom to shape his life than many an employer in Germany or a much better paid engineer or manager in Russia. If he wants to change his job or the place where he lives, if he wants to profess certain views or spend his leisure in a particular way, he faces no absolute impediments. There are no dangers to bodily security and freedom that confine him by brute force to the task and environment to which a superior has assigned him... Our generation has forgotten that the system of private property is the most important guarantee of freedom... When economic power is centralized as an instrument of political power it creates a degree of dependence

scarcely distinguishable from slavery. It has been well said that, in a country where the sole employer is the state, opposition means death by slow starvation” (Hayek, 1944).

However, John Maynard Keynes was never a “socialist”. Nicholas Wapshott wrote: “Keynes was at pains to make clear that, unlike Marxists and some socialists, he was not advocating that the state replaces private enterprise. ‘The important thing for Government’, Keynes wrote, ‘is not to do things which individuals are doing already, and to do them a little better or a little worse, but to do those things which at present are not done at all.’... It is worth stressing, in the light of those who today persist in describing Keynes and the Keynesians as closet socialists, that while Hayek was for a time a social democrat, Keynes was never a socialist of any sort, nor did he even flirt with socialism, even in its anemic British version, Fabianism. Keynes was a long-standing member of the Liberals, who were in a battle for survival with Labor’s social democrats. He believed in a ‘middle way’ between capitalism and socialism, between conservatism and social democracy, and between what he believed to be the primitive dogmatisms of both sides” (Wapshott, 2012).

For a society, Keynes believed the value of economic systems should contribute to full employment and to a fair distribution of wealth. John Maynard Keynes wrote: “The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes... Since the end of the nineteenth century significant progress towards the removal very great disparities of wealth and income has been achieved through the instrument of income tax and death duties, especially in Great Britain” (Keynes, 1936).

The heart of Keynes argument was that a liberal market did not always maintain full employment. Nicholas Wapshott wrote: “In Keynes’ *General Theory*, overall output was not fixed and could be raised through increased investment to a point where everyone in an economy was employed. It was this first slender thread of thought that led to Keynes’s wholesale contradiction of the claim of classical economists, like Hayek (1944) that an economy, left to its own devices, in the long run inevitably comes to rest at a state of equilibrium, where there is full employment. Keynes was to argue in *The General Theory* that in the short and medium terms an economy could reach equilibrium with considerable unemployment and that the full employment equilibrium predicted by classical economists too often proved to be elusive. Keynes believed that the chronic unemployment endured in Britain and America in the 1920s and 1930s was evidence that the full employment equilibrium was a fallacy” (Wapshott, 2012).

Thus, Keynes’ criticism of traditional economic theory was its failure to solve a capitalist society’s practical problems of full-employment and of fair wealth-distribution. Keynes wrote: “Our criticism of the accepted classical theory of economics has consisted not so much in finding logical flaws in its analysis as in pointing out its tacit assumptions are seldom or never satisfied with the result that it cannot

solve the economic problems of the actual world... Deflation does not reduce wages 'automatically'. It reduces them by causing unemployment. The proper object of dear money is to check an incipient boom. Woe to those whose faith leads them to use it to aggravate a depression" (Keynes, 1936).

Like Hayek, Keynes rejected the economic system of fascist governments. Keynes wrote: "The authoritarian state systems of today seem to solve the problem of unemployment at the expense of efficiency and of freedom. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas... Soon or late, it is ideas, not vested interests, which are dangerous for good or evil" (Keynes, 1936).

Keynes was always for "capitalism" but wanted a capitalism wisely assisted with appropriate government regulation for the public good. Nicholas Wapshott wrote: "It is one of the less edifying aspects of the struggle of ideas between conservatives and liberals evoked by the controversy between Keynes and Hayek that political terms have often been wantonly misused to muddy the argument. For some, the dividing line between capitalism and socialism begins with government of any sort. For others, it starts with any social act, such as the kind deed of the Good Samaritan or even representative democracy. Keynes went out of his way in his Sidney Ball lecture to state that 'for my part, I think that Capitalism, wisely managed, can probably be made more efficient for attaining economic ends than any alternative system yet in sight'. Keynes wrote to Sir Charles Addis, a director of the Bank of England, 'I seek to improve the machinery of society, not overturn it'" (Wapshott, 2012).

In a similar vein to Keynes, Hayek was also concerned with the interface between economics and politics, but Hayek concluded that government should never interfere with liberal economic markets. Friedrich Hayek wrote: "When a professional student of social affairs writes a political book, his first duty is plainly to say so. This is a political book. ... Thus, this book gradually took shape as a warning to the socialist intelligentsia of England" (Hayek, 1944).

9. Analysis—Intellectual Inheritance of the Keynes-Hayek Debate

The Keynes-Hayek debate about the proper role of government in a capitalistic economy went on in history to mark a continuing debate among economists over the same points. Nicholas Wapshott wrote: "The debate about central management of the economy, itself a Keynesian notion, evolved into a prolonged 'post-Keynesian] phase', an accommodation between Keynesian and Hayekian ideas. Although there was general agreement among stewards of the national economy that a Keynes and Friedman cocktail should be employed to maximize economic growth and choke off inflation, there remained a profound difference between

academic economists, who from the 1970s onward were divided roughly along the lines of the old Keynes-Hayek debate. On one side were the ‘freshwater economists’, so called because their universities clustered around the Great Lakes; on the other, the ‘saltwater economists’ who hailed from schools on the coasts. Freshwater economists considered, like Hayek (1944) inflation to be a country’s worst curse. Saltwater economists thought, like Keynes, unemployment more serious” (Wapshott, 2012).

Historically, the division between schools of American economists has divided by the social evil of inflation or the social evil of unemployment. Nicholas Wapshott wrote: “The *freshwater group* believed the economy should be thought of as a sentient organism ruled by the rational decisions of those who participate in the market. While government should ensure that a market was free and fair, government spending and taxation perverted the natural order of an economy. They assumed that individuals made rational decisions based on what they understood the future to hold. They assumed that businessmen held back from new investments when they feared that state spending to spur economic growth would lead to higher taxes and inflation. And they believed that globalization and the rise of electronic communications led to more efficient markets that benefited all. Recessions, they claimed, were routine aspects of an economic cycle to be endured, not cured. In contrast, the *saltwater group* believed that an economy left to its own devices would not suit everyone. They considered recessions were symptoms of an economy in poor health or the result of unforeseen shocks, and they sought to cure unemployment at the bottom of the business cycle. They believed markets, particularly in unionized labor, to be slow to respond to changes, and competition to be imperfect. They acknowledged the logic of supply-side reforms but put more emphasis on ‘demand-pull’ remedies that concentrated on putting more money into the system to make goods more affordable. Historically, in U.S. economics and political policy in early twenty-first century, the wheel had turned full circle. Hayek was now up and Keynes down” (Wapshott, 2012).

This Keynes-Hayek division continued in U.S. economics even into the twenty-first century. Gavin Jackson wrote: “Joseph Stiglitz, a former chief economist of the World Bank and adviser to Bill Clinton, tackles this idea head on in *The Road to Freedom*, his rejoinder to Hayek’s work and that of his libertarian fellow traveler Milton Friedman. As Stiglitz sees it, rather than too much government leading to tyranny, the shift to neoliberalism has reduced freedom and ‘provided fertile ground for populists’. Social democracy, with its greater role for the state, generates freer, robust societies that are resilient to authoritarians like former president Donald Trump... (Stiglitz wrote) The mistake Hayek and Friedman made, repeated by their latter day fans on the right, was in not truly understanding freedom. Freedom for one person can come at the expense of another—indeed a certain amount of coercion can expand the total amount of freedom, Stiglitz argues that Hayek and Friedman understood this principle when it came to national defense and the protection of private property, but it should be expanded to include the environment,

public health and investments in infrastructure that make us all richer... Ultimately Hayek's predictions were almost exactly wrong. The postwar welfare states did not lead to tyranny: as the latter half of the 20th century saw freedom's frontiers expand. Not only did censorship diminish—obscenity and blasphemy laws were overturned, for instance—but the civil rights movement, feminism and other liberation all ensured more people were able to access traditional liberal rights" (Jackson, 2024).

10. Discussion

What this review and analysis (of the historic case of the leading economic ideas) has shown is that macro-economic theory has not been purely economic but also political. To understand why this historical case is methodologically important, we next show how it is an empirical example that social science theories have always been connected to societal policies. This insight was first explored and discussed by Max Weber, a seminal founder of modern political economics and of sociology. We next discuss how Weber understood the observation of societal activity methodologically in both empirical and ideal forms.

Max Weber focused on a social science methodology with not only empirical descriptions of actions in a societal era (empirical explanation) but also with what people thought they were doing at the time they acted (normative explanation) (Weber, 1947). Weber proposed that: 1) the depiction of historical epochs are empirical bases for the social sciences and 2) the concept of "ideal types" are a form of normative explanation. He argued that a description of a social epoch should include both a historical "reality" (empiricism) and a historical "rational ideal" (normative judgments). Max Weber wrote: "Every conscientious examination of the conceptual elements of historical exposition (empiricism as societal history) shows that the historian, as soon as he attempts to go beyond the bare establishment of concrete relationships and to determine the *cultural significance of... (historical) events* must use concepts... in the form of *ideal types*" (Weber, 1947).

Thus, Weber argued that a generalization of an "ideal type" inherently occurs in any historical study that attempts to explain historical events from the perspective of the historical participants. We have reviewed how "liberal free-market theory", which underlay both Keynes and Hayek's economics, is an example of what Weber called a "normative social science theory". A normative theory is a prescription of what "ought-to-be" in a society, in contrast to an empirical social theory of "what-is" in a society. In the early twentieth century history of political economics and of sociology, Max Weber proposed that a normative social science theory could be called an "ideal type" theory.

As an example of a normative theory in social science, Max Weber wrote: "We have in abstract economic theory an illustration of those synthetic constructs which have been designated as 'ideas' of historical phenomena. It offers us an 'ideal picture' of events on the commodity-market under conditions of a society organized on the principles of an exchange economy, free competition, and rigorously

rational conduct. An ideal-type of a commodity market's relationship to the empirical data consists solely in the fact that where the market-conditions are discovered to exist in reality, we can make the characteristic features of this relationship clear and understandable by reference to an ideal-type... In its conceptual purity, this mental construct (of an ideal type) cannot be found empirically anywhere in reality. It is a utopia" (Weber, 1947).

By the term "utopia" Weber meant an idealized society which ought to exist. In describing social theory as the "cultural significance of historical events to participants", Weber proposed that such social theory could be expressed as a model of social rationality which was seen as "ideal" to those participants. In literature this is sometimes written as a utopia—how people in a society should reason. (An example in English literature of this is Thomas More's *Utopia*.)

An "ideal-type" social theory is not merely an empirical description of what people are doing in a society and why they think they are doing that—but also how they thought they should think. It is a generalization of the principles-of-order that they should have been following toward what they wished to accomplish. Weber's example an economic "commodity-market" as an "ideal type" explains not only the what (commodity market) and the why (utility) of economic exchanges in a market-organized society but also the how (supply-equals-demand)—all as perceived by the participants in the economy.

Weber's distinction between an empirical reality and idealism was the basis for the later developments in political science methodology, such as Habermas' and Foucault's different approaches to political science methodology. Jurgen Habermas described the principles-of-order for democracy as a consensual process around the ideas of a value consensus—"discourse ethics" (Habermas, 1989). In contrast, Michel Foucault's emphasized that practice of power was focused upon conflict which violated such principles as a realism of power—"power analytics" (Foucault, 2013).

Thus, Weber suggested that there were observable "principles-of-order" in any societal process which could be described as *normative theory* for that society. And he suggested that descriptions of a social epoch would include both a historical reality (empirical explanation) and a rational ideal (normative explanation).

The historical "reality" of an era is a description of the "power-analytics" of the era—empirical description of the times.

The historical "rational-ideal" of an era is a description of the "discourse-ethics" of the era—normative judgment about values (ideal-type theory).

Furthermore, Weber thought that if this ideal-type of a commodity-market not only operated in historical epochs of particular societies, it might also operate in a present or future society—for economic benefit of present or future societal inhabitants. The principles-or-order empirically observed in societal-historical-epochs might be universalized over the human family of societies as a prescriptive injunction.

One observes the normative aspirations of participants in the historical situation; and analyses the underlying principles of their normative aspirations.

In this way, an ideal-type theory is an abstraction of the principles-of-order that can be empirically observed in a historical social situation.

Ideal-types are abstractions and do not exist completely in reality except as a desire, a hope, a value, but such principles-of-order may be wholly or partly implemented in real practice (or may not).

The ideal type in a social theory is an abstraction of the universal intentions of that society.

Universal intentions in an Ideal-type are expressed as principles-of-order to guide social behavior.

To become more general over all societies, the principles-or-order empirically observed in specific societal-historical-epochs might be universalized as a prescriptive injunction, a normative theory (e.g. liberal markets should operate in a supply-demand price equilibrium in any society).

11. Conclusion: Economic Theory and Policy Consultants

In this historical case, one interaction between ideal theory and empirical reality that has stood out is the fundamental connection between normative theory and policy implementation. This connection is methodologically important to the challenge of objectivity in formulating theory about nature.

And there has been an important methodological difference between the physical and social sciences about “objectivity”. In the physical sciences, any observation of physical nature in time and space occurs from some position and at some time by a physical scientist (perspective of the observer). Yet, in the physical sciences, a theoretical requirement is that all physical laws must be formulated to be independent of any perspective—invariance of laws over observer perspectives. (And this empirically grounded theory depends upon the constant velocity of light, empirically observed by any observer.)

In contrast to this “invariance of physical laws”, there is, for the social sciences, no “invariance of theory” as independent of observers’ positions. Instead, Max Weber proposed a different kind of objectivity—a “family of universality for social theory”. Weber pointed out that “evaluative ideas” (values) are implicit in the methodological choices of any observation in the social sciences. But these evaluative ideas can be generalized over the “family chronicles of all humanity”. *Thus, for the social sciences, “objectivity of normative theory” raises the following question. Can there be a “universality” of evaluative ideas useful for all humanity?*

Because of this difference in “objectivity” in the physical and social sciences, there is a major difference between the physical and social sciences about “science and its application”. In the physical sciences, applications result in inventions of technology by scientists and engineers. These technological innovations impact all societies (e.g. industrial revolution, communications, warfare, etc.). But in the social sciences, applications occur in policy advice by social scientists to managers and

politicians.

Previously, the author described these differences in science and application (Betz, 2010). For the social sciences, “objectivity” can be described in **Figure 1**.

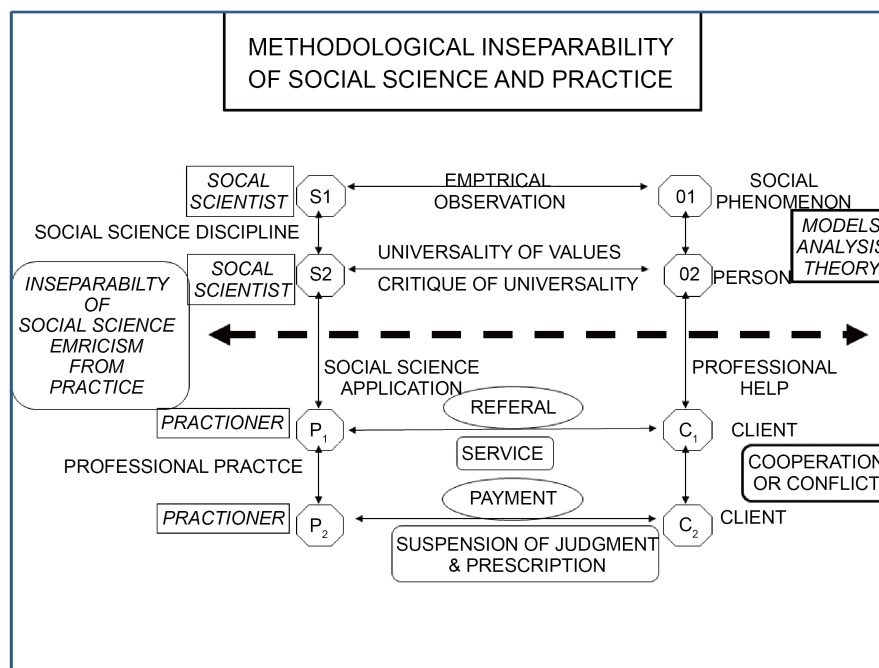


Figure 1. Depiction of how social science connects to policy/practice (Betz, 2011).

As we saw in this case history (of “stars” of economy theory and policy in the twentieth century), the flow of the information in the social sciences was from science to consulting/policy practice—applying social science knowledge to policy situations.

In the social sciences, science-in-application is not transformed into technology but into consulting. Social scientists consult when applying social science to societal problems. And in such consultation, a specific client is served and pays for the consulting. Consultants must adopt the values of the client during a consulting service—or the consultant will not be paid by a client. The value of consultation in the social sciences to a client may be of two kinds: 1) description and 2) prescription.

Description

Empirical observations by a practitioner—of the consequences of a client’s action—may show that the client’s actions may not be attaining the client’s intention.

Prescription

A practitioner might suggest a different course-of-action to the client—a prescription for action.

Science-Based Prescription

If such a prescription is science-based, it is more likely to prove technically

effective when not science-based.

Impact of Prescription upon Future Description

In the social sciences, the application of social science knowledge may always potentially alter social nature.

A client seeks services from a consultant and rewards the consultant for the services. In the case of Keynes, he was a government servant during the two world wars; and in the case of Laske, he was on the labor council; and Hayek obtained academic positions funded by businessmen.

Following Weber's ideas about objectivity in the social sciences, in a policy-consulting assignment, a social science consultant can empirically observe a client's action and intention and (sometimes) see when the outcome of action did not meet intention. Empirically, a client's action may not be attaining what the client thinks it is attaining. A social science consultant can describe the action and function of the action differently from how the client sees it. Then, a consultant might be able to show to the client disconnection between intention and results—when the client's action is not really attaining the client's purpose. Next, a consultant could shift to a normative mode and tell the client how to modify action to better attain intention—change the action of the client.

This shift by a consultant/practitioner from empiricism to normative advice can connect social science to practice—a temporary and partial objectivity in social science.

A consultant's temporary assumption of the client's values to prescribe more efficient and effective action to the client is universalizing a social science prescription from one client to another—toward a universal “family of clients”—so to speak.

In consultation, the practitioner is temporarily suspending the partial separation between empiricism and normative judgment. All social science practices consist of prescriptive aides to improve the decision-making capability of a client to better attain a client's purpose.

The more practice is based upon scientific knowledge, the more likely prescription will be effective toward attaining a client's purpose.

The importance of social science theory to societal policy is to draw inferences from past events that can be useful to policies for controlling future events.

Social science consulting can never be wholly “value-neutral” in the service of a given client. When aware of their own observer bias, social scientists need not immediately make any of their normative judgments about what a participant is doing that and why and how. Weber's edict to partially and temporarily separate empiricism from normative judgments makes social science empiricism methodologically possible.

The benefits of “empirically-based societal theory” are in providing practitioners

with “principles of order” which have been validated by application in consulting practice for many different clients in many different societal contexts.

In contrast to the physical sciences with a “value-free” methodology, the social sciences require a “value-loaded” methodology. Moreover, a value-loaded methodology might yield an important grounded understanding of universal human values. To do this:

1) The social sciences need to be methodologically integrable (as are the physical sciences)—as all societies exist as a whole and not simply in disciplinary slices (of sociology, economics, political science, etc.).

2) Social science theory must be empirically grounded (as are the physical sciences)—and grounded upon societal histories, as history depicts the natural experiments in human societies.

3) Social science theory must also be normatively grounded over a universal “family of humanity”—normative social theory (judgments of value) needs to be generalized overall societies and all time.

4) The discipline of history needs a formal analytical structure (perceptual space) to properly analyze the evidence necessary for the empirical and normative grounding of societal theory.

For societal knowledge and wisdom in twenty-first century, it is necessary to be methodologically capable of clearly distinguishing empirically grounded social theory from political propaganda. How can we ground social theory in the empiricism of history and not upon the politics of the present? This is the historical challenge of the twenty-first century, if it is not to repeat the twentieth century.

This historical case we have reviewed is not a just a particular instance of economic history. It is also an example of a general analytical tool which is needed to understand the real context of any economic theory when applied to policy decisions.

Declaration

“Natural-history-grounded social theory” should be the intellectual antidote to the poisons of “ideological social theory”. Historically, in the twentieth century, political ideology did invade the social sciences, as some social theorists regarded Marxism as a valid scientific theory—valid economically and valid sociologically. This ideological interference in the social sciences slowed progress in social science (both in economics and in sociology) as valid scientific disciplines—delaying social science progress until the end of the Soviet Union. It was only after the empirical collapse of the Soviet Union that “Marxism” was finally universally admitted to be a failed social theory—neither as empirically nor as normatively valid science (as economics or as sociology or as political economics). There was in the politics of that century a deep intellectual clash between professionalism-in-social-theory (societal knowledge) and professionalism-in-political-practice

(societal wisdom). This clash was triggered by and was involved in the justification of some of the most horrific events the world has experienced—mass events of societal change and terror led by and these social theorists/politicians (Lenin, Stalin, Hitler, Mao, Pol Pot) destroyed their own societies (as well as others in which they interfered). The twentieth century witnessed the horrors of mass persecution of millions and millions. History continues the clash between ideology and science continues. *This intellectual clash continues to be one of the most interesting and dangerous challenges in the modern world—“ideological social theory” or “empirically-based social theory”*.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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