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# Capitalism and Keynes:
## From the *Treatise on Probability* to *The GeneralTheory*

Edmund S. Phelps*

Of the main controversies in 20th century political economy, none were more heated than the debate over Marxism and, relatedly, the debate over capitalism. John Maynard Keynes was a major figure in both controversies. In this paper I will first touch on Keynes's contribution to the debate with Marxism. I will then go on to take up the criticism of capitalism with which he is lastingly associated. Both these strains in Keynes's thinking lead us ineluctably (to use a favorite word of his) to his work of great genius, his theory of economic activity. The latter topic will give me a chance to propose a non-monetary model of employment that, contrary to my previous non-monetary models, preserves the main driver in Keynes's theory and, at the same time, avoids any presuppositions, plausible or implausible, about "money-wage behavior."

**The Radical Economist**

Much of Keynes's work was a response or a reaction to capitalism. So a definition of capitalism may be in order. A predominantly *capitalist* economy, whatever its minor deviations from the ideal type, generally means a private-ownership system marked by great *openness* to the *new commercial ideas* and the *personal knowledge* of private entrepreneurs and, further, by great *pluralism* in the *private knowledge* and *idiosyncratic views* among the wealth-owners and financiers who select the ideas to which to provide capital and incentives for their development.[1] Most economists today view capitalism as having evolved into a rousing system for cutting-edge innovation over the 19th century. This system stands in sharp contrast to the economic system for industrial peace, social consensus and community stability that began to spring up here and there on the European continent in the late 1920s and 1930s – the *corporatist* economy.

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* McVickar Professor of Political Economy and Director, Center on Capitalism and Society, Earth Institute, Columbia University. This paper is about one-half of the paper given at the Santa Colomba conference – the macro half. (The political economy half is available under the title "Corporatism and Keynes.") My discussion here of Keynes's evolving thoughts about capitalism has benefited from interactions over the decades with several scholars, including Jean-Paul Fitoussi, Roman Frydman, Axel Leijonhufvud, Robert Mundell, Joseph Stiglitz and, among those deceased, Harry Johnson and James Tobin.

[1] The term *free enterprise* might convey better this Hayekian conception of capitalism but I would rather not proliferate terminology.

Keynes, born in 1883, was immersed in the milieu of capitalism through his student years and his twenties. British capitalism was no longer the pace setter and Britain was in low spirits from a loss of empire in those years but it was a far more innovative time than the interwar decades and the postwar decades were to be. It would have been nearly impossible for Keynes to see the society in which he lives as a determinate system, subject only to random fluctuations around a foreordained trend path.

There is some evidence that Keynes read and was sympathetic to the indeterminists. A philosophy of free will and indeterminism was set out in the chief work of Henri Bergson, translated into English in 1911.[2] "Was Keynes familiar with Bergson?" (So asks an historian of economics, Tom Walker, over the internet.) The answer is yes. Keynes's biographer, Robert Skidelsky quotes a comment by Keynes on Bergson. "There is nothing in Bergson's logic, but something quite interesting in his ideas, if only one could get at them clearly."[3]

Keynes came to a view on what causes the indeterminacy of a society's evolution. The causes are discoveries (as Hayek would have put it), or innovations. Thus the source is mankind's creativity. In the *General Theory* Keynes suggests this in one of his most dramatic lines. "What drives the world is ideas and nothing else."[4] [CHK] We are to understand here that new ideas are by their nature not completely determined, otherwise they would not be new. In this pithy assertion Keynes rejects the Marxist theory of history with its historical determinism. Of course, Keynes was by no means referring *exclusively* or *primarily* to new *commercial* ideas, from Watt's steam engine and Birdseye's frozen foods to Disney's animated cartoons, Ingvar Kamprad's Ikea and Nat Taylor's creation of the cineplex. The famous line occurs in the context of theories about how the economy works and, in particular, how economic policy is created by the ideas of economic science. But Keynes's expressed view of capitalist economies strongly indicates that he thought of them as driven by new entrepreneurial ideas or, at times, the dearth of them.

With the hard times that the British economy fell into, starting with the general strike of 1926, Keynes shows no interest in the innovativeness of capitalism. It may very well be that Keynes by the 1930s no longer saw Britain's economy as a bountiful source of innovation. It would be fair to read Keynes's *General Theory* as having laid Britain's depression from 1926 to the mid-1930s to a near-cessation of innovation, owing to some appreciable drying up of entrepreneurial visions. (Yet Keynes said toward the end of his life that his theory in the 1930s was not "forever" and that he wanted after the

2 Henri Bergson, *Creative Evolution*, trans. from the French (1907), New York: H. Holt, 1911.

3 Robert Skidelsky, *John Maynard Keynes, 1983-1946: Economist, Philosopher, Statesman*, London: Macmillan, 19xx. Quoted in the Bibliography..

4 *General Theory*, p. xxx.

second world war was over to develop another theory.[5]

It is far from clear that Keynes was an admirer of capitalist Britain's innovativeness, even when it was innovative. As I comment in the companion paper to this one, Keynes appears to have had no sense of the important role of innovation in imparting excitement and personal development to business careers. In his dyspeptic 1932 essay he seems to view the economic future for Britain as a long slog of decreasing unpleasantness toward the point where industry has finally increased household utility as far as it can go – the "utility satiation" of Frank Ramsey.

If the future was not highly determinate, no one could completely know the future. This uncertainty about the future was an undercurrent of Keynes's view of the world beginning with his book on probability.[6] And this uncertainty applied also to the future (and possibly present) consequences of present actions.

Keynes could be credited with *another* theory of entrepreneurs' uncertainty as well. This added theory, for which he became well-known, held that even if the economy were *fundamentally* deterministic, no one of any sophistication would feel sure of having the *true* model of that ultimately deterministic economy. For Keynes it was patently obvious that there are persistent "differences of opinion." There often appear to be a difference of thinking between insiders and outsiders, entrepreneurs and financiers, bulls and bears. Just why this is so is a subject of some controversy. One explanation, it would appear, could start from the observation that there are myriad differences in private knowledge acquired from different experiences in a career, as Hayek emphasized, not just a common set of macro observations plus a random variations over time and place. Furthermore, because no one has the opportunity to study data from an economy that is free of differences in opinion, identifying the true model with any reliability must be highly problematic.[7]

Nevertheless, Keynes did write as if there is normally a dominant model but beliefs in it (or at any rate parts of it) are "flimsy" – unraveling once doubts build up to some threshold level.[8]

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5 Professor Juan Vicente Sola, University of Buenos Aires, told me in May 2007 he heard Hayek quote Keynes to that effect in a lecture Hayek gave in Chile in the 1980s.

6 Keynes, *A Treatise on Probability*, London: Macmillan, 1921. In the same year Frank Knight introduced the same concept, under the name *uncertainty*, in his *Risk, Uncertainty and Profit* Boston: Houghton Miflin, 1921.

7 Roman Frydman argues that if an actor in the economy had the true model for a time, he or she would not know it and so quite possibly try another model in hopes of beating that one.

8 This point may be the most important one made in his sequel paper, "The General Theory of Employment," *Quarterly Journal of Economics*, 1937.

**The Theorist of Business Inactivity**

From the mid-’20s well into the ’30s the still predominantly capitalist economy of the U.K. remained in the doldrums. Keynes published his theory and his policy prescription in 1936 with his *The General Theory*.[9] (As often happens to authors, Britain’s depression was essentially over by that time, although America’s was not.)

Keynes’s basic theory is easy enough to state: Capitalism’s entrepreneurs and financiers backing (or declining to back) their projects face the uncertainty about the future introduced by Frank Knight, now usually known as Knightian uncertainty; and by Keynes himself in his *Treatise on Probability*. If as a result of worsening “visibility” or an increased aversion to bearing an unchanged uncertainty the entrepreneurs or the financiers pull in their horns, the consequences will include a fall of entrepreneurial project valuations, a fall in investment activity and a fall of real interest rates (though less than necessary to prop valuations and investing back up). An effect in turn of the reduced investment is a fall in aggregate employment. Robert Mundell and Marcus Fleming argued using their model that employment would not fall if the economy is open and if the money supply were held constant, at least initially. In that case a transient fall of interest rates would prompt a real exchange rate depreciation just large enough to cause the fall of investment to be offset by a rise of net exports (known also as net foreign investment). Let us focus in what follows on the case in which the interest rate is set by the central bank to hold constant the exchange rate.

The policy for responding to such an eventuality that Keynes advocated was either a reduction of interest rates engineered by the central bank, which would mean unpegging the exchange rate, or, if the interest rate is to remain on a par with overseas rates so as to maintain the exchange rate, an increase in investment activity by the state – either through state enterprises or through increased purchases of public goods (or services) by the public sector.

The prescription of stepping up state investing in spite of the increased uncertainty or the increased aversion to it could fairly be said to be another exercise in corporatist thinking. Only later, it appears, did it come to be recognized by Keynesians that tax cuts might serve the purpose as well or better than public investment. Keynes may have been thinking of the massive investment in the rail and highway system that Mussolini instituted to cope with the depressionary forces that came Italy’s way in the second half of the ’20s and early ’30s.

Keynes’s analysis was plagued by his omission of a reason why money wage rates would not come to the rescue or else why they couldnù’t help even if they caqme. In his defense it could be suggested that he may have had in the back of his mind an open economy with a fixed exchange rate. In the policy

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9 Keynes, *The General Theory of Employment, Interest and Money*, London, Macmillan, 1936.

framework specified above, the effect of money-wage reductions would just be equiproportionate decreases in the demand for money and thus in the money supply (to keep the interest rate continuously at the level required to maintain the exchange rate), so that there would be no expansionary benefit. But he could not avail himself of that argument in the book as written, which appears consistently to refer to a closed economy from the first chapter to the last. And in the closed economy case, he needed to resort to the argument that a downward spiral in money wage rates could destabilize investors and thus possibly do more harm than good. But at some point, continued declines in the average level of money wage rates would cease to inspire speculation that money wage rates would have still further to fall, since by some point they would already be at a terribly low level and thus as likely to rise, it would seem, rather than fall some more.

I will take this opportunity to show that Keynes could have spared himself and his disciples the long brouhaha about money wage rates if, to simplify, he had instead couched his thesis of the arbitrariness of the level of employment in terms of a non-monetary model such as I sketched around 1990 (in the closed economy version) and which was set out in both the closed and openeconomy versions in my 1994 book.[10] Here I will add a new element, employment in the activity of developing and launching new entrepreneurial ideas.

I want to picture a closed economy (as Keynes did) with a fixed labor force, $L$, in which, to take the easiest case, shirking, not quitting afflicts the employment relationship. Absent entrepreneurial activity, employment and thus unemployment, would be determined simply by the intersection of an upward sloping Wage Curve and a downward sloping demand curve. The downward slope comes from the higher rates of shirking at higher rates of employment. Yet I will also need some diminishing returns to labor in production to avoid running into difficulties or complications in what follows. So, for example, I want to posit that land as well as labor is required for production.

We can think of these production firms as having potentially entrepreneurial teams, each headed by their entrepreneur-leader, but they are just so much labor unless they are deployed in the development and launch of some idea that their leader can obtain financing for. Decision by many financiers to back some proposed entrepreneurial projects is not neutral for the economy's aggregate employment. At least the economy total demand for labor curve is affected, generally speaking. I will suppose that the activity of an entrepreneurial team does not require land and, for simplicity, that the entrepreneur does not face a shirking problem.

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[10] Phelps, *Seven Schools of Macroeconomic Thought*, Oxford, Oxford University Press, 1990, and Phelps, *Structural Slumps: The Modern Equilibrium Theory of Unemployment, Interest and Assets*, Cambridge, Mass., Harvard University Press, 1994.

At the diagrammatic level, the model reduces to two curves in the employment-average valuation plane, ($N$, $q$ ), where $N$ denotes the level of employment, given the labor force, $L$, and $q$ denotes the mean valuation being placed on entrepreneurial investment projects. Inevitably, $q$ will cause readers to think of the "shadow price" attaching to having one more entrepreneurial team (to engage in its entrepreneurial project), except that the true shadow price is not given to financiers nor entrepreneurs. In recent work I have posited an industrial fair in which entrepreneurs and financiers meet to determine the price on the marginal project under conditions of Knightian uncertainty; such a construction gives a $q$, given subjective "expectations" (if one may use that word in this context) or, as Keynes would have said, "animal spirits."

In this plane there is an upward sloping curve (dubbed the Phelps curve by a kind discussant of a 2001 paper) describing how the level of entrepreneurial teams created will be greater the higher is the valuation of a team. Rising employment requires a rising "supply price" because higher employment entails a larger number of entrepreneurial teams, thus a worse-looking marginal project, so valuations must be generally higher to let in such a marginal project. (In all this, the ordinary production sector, whose price is one, sets the demand wage associated with any given level of employment.)

The other curve describes how the valuation of the marginal project, which depends on future prospects and their uncertainty, etc., varies as employment is increased. We can specify this curve as downward-sloping, since the costs of running every entrepreneurial team will be higher the greater is the employment level. (It would make no difference if the curve were flat.)

A deterioration in future prospects or an increase in their uncertainty or in the aversion to uncertainty operates to shift *down* the latter curve, thus lowering the market-clearing valuation of the marginal entrepreneurial project corresponding to each and every employment level. That shift results in a movement down the other curve, thus a decrease in both the quasi-equilibrium valuation and in the level of employment.

The essential point is made. Shifts in the quasi-equilibrium employment level do not hinge on monetary considerations, such as money supply and money wage rates and money prices. Keynes's message did not need to drag in those considerations, only to follow up his notion of the animal spirits of entrepreneurs and financiers.

It follow that what we may call the "natural" rate of unemployment in a somewhat extended sense in keeping with the extension of the model to Knightian uncertainty is a *function* of that uncertainty and the aversion to it. We can re-interpret Keynes's theory of the impact of animal spirits as a proposition about the *natural* unemployment rate.

This model departs considerably from Keynes with regard to policy, however. An increase of government expenditure – even expenditure on new capital goods for the public sector (once capital is admitted into the model) would do nothing to shift up the valuation curve and do nothing to shift down the “supply price” curve. Indeed, any tendency of the increased government investment activity to raise real interest rates would cause project valuations to fall and thus to reduce employment. And any tendency for the higher tax rate that might be introduced to finance the government expenditures would tend in the short run at least to shift to the left the supply-price curve and thus also to contract employment.

It is reasonable to feel that Keynes was rash to base a case for a massive increase in governmental investment activity on a model that should have been viewed as just one of a great many models remaining to be formulated in a formal way and studied for their implications. It is reasonable also to suspect that it was Keynes’s fondness – as late as the mid-’30s – for corporatist intervention in the behavior and direction of the economy that predisposed him to draw the policy conclusions he did.

In the end he apparently sensed that he had carelessly invited all manner of interventions into the economy. In his last words, appearing in the *Economic Journal* in 1946 he speaks of the line of thinking he embarked upon in the first half of the 1930s as “having gone silly and sour.” We can reasonably surmise that he intended to rethink his 1936 monetary model of employment with an eye to reappraising the value of “spending” as a means to prosperity. His early death at merely 64 deprived us of the mature ideas of one of the very greatest economists of his century.

## APPENDIX

Excerpts from Marco E. L; Guidi, "Corporative Economics and the Italian Tradition of Economic Thought," *Storia del Pensiero Economico,* No. 40, 2000/I..

### The nature and scope of corporative economics

The reconstruction of the context in which corporative economics developed has revealed that different tendencies were present in the debate. Historians of economic thought have tried to clarify the characteristics of the main groups or "schools".

First comes the group of "integral" corporatists (Zagari 1982), who believed that the corporative doctrine was alternative to marginalist economics (Bini 1982). They thought that the newly introduced mechanisms of public negotiation between the government and the representatives of labourers and capitalists had determined the end of class conflict and of traditional market relationships. This fact in its turn implied the mutation of individual values and motives. Private individuals would spontaneously give up their self-interested behaviour and subordinate their actions to the higher universal goals of the State. This mental revolution, as Gino Arias stated, implied the rise of a new "corporative conscience".

For "integral" corporatists, economics should be characterised by a normative approach:

> [They] wanted to re-introduce ethics and the dialectic between the individual and the State into economics. Thus they intended to prepare the ground for a science of a normative, rather than cognitive, character. This science was to sanction the unambiguous political supremacy of the State over the economic order (Zagari 1982, p. 28).

This was the common denominator of a wide range of different, often conflicting (Faucci 1990b, p.16) approaches.

The more radical was the "statalist" and "philosophical" tendency led by Ugo Spirito. Spirito propounded a Hegelian interpretation of corporativism. In his approach, individuals were totally subordinated to the State. Without the enlightened guide of government, society necessarily precipitated into chaos. Spirito also believed that economics was subordinated to politics and to the supreme and universal judgement of philosophy. In the course of time, he went increasingly pessimistic about the scientific content of economics, which he came to consider no more than a "technique" (Perri – Pesciarelli 1990). According to Spirito, the corporative organisation of the economy was a third way between capitalism and socialism. Corporativism was the only social organisation that triumphed over individual "particularism" and selfishness.

Many eclectic thinkers followed Spirito in this approach. One of them was Giuseppe Bottai, who believed in "corporative democracy". There are many similarities between his vision of the self-government of producers organised by the State, and Spirito's ideal of "proprietary corporation" (Cavalieri 1994, pp. 17-18). Another group of "integral" corporatists emerged from the anti-individualistic wing of the nationalist movement. It was composed by Alfredo Rocco, Carlo Costamagna, Francesco Ercole and Filippo Carli. They believed in a strong supremacy of the State, although they rejected Spirito's Hegelian arguments. Also Rodolfo Benini agreed with Spirito on the project of a reformed science based on the subordination of the individual to the State (Faucci 1990c, p. 214).

The second group of corporative economists shared with the first the “statalist” approach. However its members tried to restate the issues of corporativism in an economic language. Two leaders of this group were Nino Massimo Fovel and Celestino Arena. Fovel engaged himself in an attempt to conciliate corporative theory and pure economics, «through a confuse notion of the “economic character” (*economicità*) of human behaviour, which included anti-economic behaviour (minimum result, with maximum means)» (Faucci 1990b, p. 16). The role played by Arena was perhaps more interesting. Arena tried to bridge the gap between academic and corporative economics by discussing the problems related to «political prices, price discrimination and the taxation of “unproductive surplus”» (Faucci 1995b, p. 526). In his university lectures published in 1933-34, he found in the rigidity of the labour *demand* a cause of structural unemployment. In Arena’s approach, the flexibility of wages was not expedient in order to contrast this tendency. In an article written in 1937, he proudly compared himself to Keynes (Bini 1982, pp. 279-281). But the more important aspect of Arena’s work was the interest he showed in foreign new economic approaches. With American institutionalism

> he shared both the opposition to the excessive neo-classical bent towards abstraction, and the need to integrate economic theory with contributions coming from other disciplines, especially from law studies (Bini 1982, p. 263).

His editorial work in the *Nuova collezione di economisti* should be interpreted in this light. This collection should not be considered as a failure of corporatist culture. It was perhaps an attempt to attract younger academic economists – eager to open new perspectives in their discipline – towards corporative economics. Arena was sympathetic to Amoroso and De’ Stefani and was responsible for the “conversion” to corporative economics of other economists like Lello Gangemi and Guido Menegazzi.

A third tendency – led by the catholic economist Gino Arias – was characterised by a more “privatistic” approach. Arias belonged to the conservative wing of social Catholicism (Faucci 1990b, p. 16). Significantly, Mussolini himself often hosted in “Critica Fascista” Arias’s writings on corporativism (Bini 1981). Arias’s vision was based on the idealisation of the Italian medieval society and on Scholastic philosophy. According to him, the adoption of the corporative model should be the result of a moral revolution taking place in the conscience of individuals. However, he thought that the institution of a corporative economy did not change traditional hierarchies and social distinctions of roles. Society was not an aggregation of individual interests, and the State was just one essential element in the social pyramid, but not the totalitarian Leviathan that radically subordinated everything (Zagari 1982, pp. 27 and 32). Arias was followed by Carlo Emilio Ferri – who was sympathetic to attempts to bridge the gap between corporativism and orthodox economics (Zagari 1990, p. 461) – and Francesco Vito. According to Faucci (1990b) Vito was an author midway between orthodox economics and the catholic version of corporative economics.

## How many traditions of political economy?

A further question raised by the historiography on the economics of the inter-war period concerns the place of corporative economics in the long-term evolution of the Italian economic thought.

According to Riccardo Faucci (1990b, pp. 5-6) the Italian economics of the inter-war period issued from two distinct and conflicting traditions originated in the $19^{th}$ century. The first tradition was distinguished by an individualist, theoretical and ultraliberal approach. Francesco Ferrara (1810-1900) (see Faucci 1995a) was its main representative, while Galiani and Beccaria were its forerunners. This tradition favoured the introduction of marginalism in Italy between 1990 and 1914, the period in which, according to Schumpeter (1954, p. 855), Italian economics was “second to none”.

The second – and prevailing – tradition was characterised by an organicist, historicist and moderately interventionist approach. This tradition could be traced back to Genovesi and later to Romagnosi and Gioia, despite differences between them[20]. After 1848, and especially after the unification of Italy in 1861, this tradition generated a variety of schools of thought. Among them, the majority was held by the Chair Socialists (Luzzatti, Lampertico, Messedaglia) – who favoured substantive State intervention in tariff regulations, social policy, technical education, and banking. Also some moderate liberals such as Minghetti and Sella, and Catholic economists like Giuseppe Toniolo shared the same approach to economics (see Guidi 1996). These authors had in common a paternalist, anti-universalistic and inegalitarian vision of society, coupled with a distrust in the automatic functioning of the economy. The society was governed by the responsible agency of the ruling classes, both in private relationships and in the public sphere. State intervention should be subsidiary to the private benevolent initiative of paternalist agents. Economics was not a highly theoretical and independent science, but a practical and empirical discipline, strictly connected with other ethical, legal and political sciences[21].

According to Faucci, this paternalist and historicist tradition

> was re-launched by fascist corporativism. But it was an ephemeral success. After the war, no room was left for both autochthonous currents, and the Italian economic thought lost any national connotation (Faucci 1990b, p. 6).

This conclusion contains many elements of truth. For example, a system of corporative representation had been espoused by Toniolo on the model of the Italian middle age guilds. Toniolo also argued that corporativism represented a “third way” between liberalism and socialism. Its moral and political superiority lay in the fact that it encouraged the “solidarity” between labour and capital. More widely the ideas of solidarity and harmony between classes had been central to the debate on “association” and “co-operation” in the second half of the 19th century (see Piretti 1985) – a debate which was strictly connected to the movements in favour of economic associations, co-operatives and municipal services.

However, studies on the evolution of economic associations and the co-operative movement between the end of WW I and the rise of the fascist regime in 1922 have revealed that these organisations underwent a serious crisis during the so called “Biennio Rosso” (1919-20). Some leaders asked for the official recognition of these associations as a direct response to the crisis. Also the leaders of the CGdL – the major workers union – solicited the legal *erga omnes* enforcement of the contracts negotiated by their representatives (see Pepe 1996). The fascist regime acquiesced to these demands by promulgating the corporative law and bestowing a public status to some economic institutions and unions. At the same time these institutions were submitted to a strict and illiberal political control. However, the most enduring result of this policy was that syndicates, economic associations and trade unions were transformed into official organisms, endowed with monopolistic privileges and administrative functions. Significantly, the return to political freedom after WW II did not entail their re-privatisation.

There are reasons to believe that such a metamorphosis in the legal status of economic organisations was to fascist totalitarian ideology as the private and solidaristic nature of pre-WW I associations was to the 19th-century moderate-liberal vision of society. If so, then this break in the history of social facts corresponded to a discontinuity in social and economic ideas. Despite some superficial analogies, there was a radical rupture between the “privatistic” ideal of solidarity endorsed by the liberal tradition, and the "publicistic" State-centred ideology of fascist corporativism. The authoritarian bent of fascist corporativism was not a pure addition to the established paternalist ideology, since it implied an inversion in the traditional conception of the relationships between society and politics.

However, the new approach to economic regulation was not entirely new[22]. The connection between political and economic thought is crucial here. Zagari (1982, pp. 16-24), has stressed the role played by "revolutionary trade-unionism" – the current of the Italian socialist movement inspired to Georges Sorel and guided in the 1900s-1920s by Enrico Leone, Arturo Labriola and Adriano Olivetti. Still Zagari has emphasised the influence of nationalist ideology in the period between 1900 and 1923.

At an early stage, "revolutionary trade-unionists" opposed the reformist revision of Marxism and exalted the role of class struggle and violence as weapons against the capitalist State. They refused to acknowledge the role of liberal political institutions, and opposed to them the "self-government of producers". According to many, this illiberal and authoritarian ideology later «furnished the ideological justification» to the fascist regimentation of the labour power (Zagari 1982, p. 23; see also Gervasoni 2001; Cubeddu – Monceri 2001). Significantly, some leaders of revolutionary trade-unionism – like Lanzillo, Panunzio and Orano – soon adhered to fascist corporativism.

As to nationalism, it «furnished a political platform» to fascist corporativism, in that it promoted «a sort of State trade-unionism which aimed to engage all productive classes in the pursuit of the greatest national prestige» (Zagari 1982, p. 23). More recent studies (Cardini 1990; Bianchini–Morato 1997; Michelini 1999) have confirmed this interpretation, by showing how some partisans of economic nationalism later became the active ideologists of corporativism.

Lastly, the justification of corporativism given by Ugo Spirito allows us to evaluate the role of the Italian Hegelian tradition of political thought. This tradition had been originated by Bertrando Spaventa at the University of Naples. Spaventa drew from Hegel's philosophy of law a conception whereby the State was the synthesis of the particularistic interests existing in any society. Among Spaventa's followers were the Marxist philosopher Antonio Labriola and his younger friend and disciple, Benedetto Croce. The latter endorsed Spaventa's liberal opinions. But the Italian Hegelian school of thought also generated the totalitarian approach known as "actual idealism" or "actualism". This interpretation was exposed by Giovanni Gentile and Ugo Spirito, and had its centre in the Faculty of Law and School of Corporative Studies of Pisa University. According to the liberal version of Hegelianism, the conciliatory role of the State did not suppress the free and independent interplay of private interests and goals in civil society. Conversely, in Gentile's and Spirito's approach the mediation of the State entailed the absolute subordination of private inclinations to the regenerating ends of the State[23].

Spirito's interpretation of corporativism and of the fascist political order was not entirely approved by other corporative economists. However, Spirito expressed in a philosophical language an idea that was common even to the heirs of the paternalist Catholic tradition, and to the proselytes of social Darwinist, voluntarist and élitist doctrines: this idea was that there was no spontaneous social order outside the regimentation of private interests within the State. The corporatist State-centred doctrine, therefore, was the result of the marriage between totalitarian Hegelianism and thoritarian pre-fascist ideologies, rather than the natural evolution of liberal moderate social and economic doctrines.