

## Will Hutton argues, as Keynes did, why the Tories just ...

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I don't always agree with Will Hutton, but in his column today in the Observer he said this:

*Great news. All three party leaders are now talking about responsible capitalism. But we need much more than invocations to [John Lewis \(Nick Clegg\)](#), a boost to the [Co-operative movement \(David Cameron\)](#) or a redress against [predatory pricing \(Ed Miliband\)](#) — welcome though these words are.*

Central should be the question of how capitalism deals with unknowable risk; this gets to the heart of why the system is so seriously malfunctioning. The Conservative, free-market view is that capitalism can deal with unknowable risk all by itself and that rewards will always be proportional to risks. But if this is not true, as even David Cameron began to recognise in last week's speech, though he quailed before the full logic of his new position, then everything changes.

And he's bang on: this is absolutely right. The fundamental difference between neoclassical (and so neoliberal economics) and even neo-Keynesianism economics and what Keynes actually wrote is that Keynes was perhaps the first economist to truly realise that we have no idea what is going to happen in the future.

Now I know that might sound crass to a non-economist but as I put it in *The Courageous State*:

*To summarise briefly: the difference between the risk which is assumed to underpin all future behaviour in neoclassical economics (including it must be stressed, neo-Keynesian economics) and the uncertainty that is assumed to exist around all future behaviour in truly Keynesian economics is that in neoclassical economics it is assumed that all future possibilities are known. Keynes said that that is wrong: the future is uncertain and we simply cannot predict what might happen.*

[Nassim Nicholas Taleb](#) captured the essence of what Keynes argued in his now famous 'Black Swan Theory'.<sup>[i]</sup> His metaphor is a powerful one: the existence of a black swan was simply unknown and unimagined in Europe until its discovery. Then, something

previously unimaginable was known to be possible. This is uncertainty explained: uncertainty is about the unknown that we know must exist, although of course we do not know what it is. All we can say is that because the unknown is possible we cannot predict the future probabilistically, and yet all neoclassical economics assumes that we can. Clearly the consequence is enormous for economics.

Or if you really insist on it, in perhaps his only moment of real insight, [as Donald Rumsfeld put it](#):

*[There are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns — there are things we do not know we don't know.]*

Cameron and all neoliberals (including far too many LibDems and Labour supporters) live in a world of known knowns and known unknowns, but what they entirely forget is the unknown unknowns. And yet we had one in 2008: the world's banks fell over. And there are other such unknowns, not all as big, but all of them suggesting that relying on the market is simply wrong. Markets might pretend that they know the future and so make decisions on the basis of fancy spreadsheets predicting future cash flows: frankly, they're just deluding themselves. Indeed, in most cases businesses may well be more in the dark than politicians, who tend to have a bigger world view, about what might be happening that shapes the outcome of the events they seek to predict that impact investment returns. And yet it's this myth that business knows and that government doesn't that is the sole support for the claim inherent in neoliberalism that markets work and government interference is bad news. Both ideas are wrong, but the first idea is patently obviously so: it is a literal claim that neoliberalism is right because all business people are clairvoyant. To believe that is madness - and yes, that's the appropriate description for neoliberal and neoclassical economists who base their claims on it. On the other hand the claim that all government interference is bad news is just obviously wrong as it's a lie; a lie those same economists peddle, so doubling their crimes against humanity. The reality is that government - as we have seen - has vastly better capacity to manage uncertainty than business. And yet we deny that by insisting that solutions must be in the private sector when very often the exact opposite is what is needed. Unless we change this fundamental error in the narrative about business Cameron and his cronies will continue to reap the reward of this neoliberal falsehood they have spread - the consequence of which is that the upside is theirs to enjoy and the downside is the state's to bear. It is this falsehood that business is exploiting. And until Labour and others say that this is the biggest lie in history we're in trouble. Keynes rumbled this. That was his biggest contribution in very many ways to economics. Too many, even most (about 99%, I suspect) of economists have forgotten this. Now we need to reclaim the truth and let business work as best it can - recognising its limits - and its obligations to the state that always and forever underpins its risks. \_\_\_\_\_ **[i]Taleb, N.N. (2007)*The Black Swan: The Impact of the Highly Improbable*, Penguin**

