LISTEN, KEYNESIANS!

There is a remarkable consensus among economists of all ideological and political persuasions—conservative, liberal, and radical—that capitalist economies must grow to be healthy, and that the key to growth lies in the capital accumulation or savings-and-investment process.

Accepting this view, we have long been arguing in effect that capitalism, like living organisms, undergoes a natural aging process from birth through adolescence to maturity. In the early period when society's capital stock—mostly means of production and transportation—is being built up from scratch, the opportunities for capital accumulation appear to be virtually unlimited. The more resources that can be diverted from the production of consumer goods (savings), the more can be devoted to production of means of production (investment). Growth is rapid, interrupted only by financial blockages and demand-and-supply disproportionalities. After these blockages and disproportionalities have been eliminated (a function performed by crises and depressions), accumulation and growth resume what soon comes to be assumed to be their normal course.

So it was during capitalism's youth. This was also of course the period of the rise and refinement of political economy (later called economics) as the science of capitalism's laws and tendencies, a period which can be dated from the time of Adam Smith in the last quarter of the eighteenth century to that of Alfred Marshall, which extended into the third decade of the twentieth century. With negligible exceptions the economists of this period, reflecting the historical reality around them, saw vigorous growth as the essential characteristic of the system and interruptions of growth as a temporary and self-correcting illness.*

In this vision of capitalism, there was no need for a special theory of the demand side of the investment process. The presence of what was for all practical purposes an unlimited demand for additional means of production could be taken for granted. The determination of the actual rate of accumulation was therefore shifted entirely to the supply side of the equation. Marshall's handling of the problem was fairly typical. In a 20-page chapter entitled "The Growth of Wealth," he devoted less than a page to the demand for capital and most of the rest to the supply of savings. On the former he said in part:

> As civilization has progressed, man has always been developing new wants, and new and more expensive ways of gratifying them. The rate of progress has sometimes been slow, . . . but now we are moving on at a rapid pace that grows quicker every year; and we cannot guess where it will stop. On every side further openings are sure to offer themselves, all of which will tend to change the character of our social and industrial life, and to enable us to turn to account vast stores of capital in providing new gratifications and new ways of economizing effort by expending it in anticipation of distant wants. There seems to be no good reason for believing that we are anywhere near a stationary state in which there will be no new important wants to be satisfied; in which there will be no more room for profitably investing present effort in providing for the future, and in which the accumulation of wealth will cease to have any reward. (Alfred Marshall, *Principles of Economics,* 8th edition, 1920)

The belief in the existence of an unlimited demand for

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* Some students of the history of economic thought might contend that the preceding summary is contradicted by the forebodings of the classical economists beginning with Ricardo and Malthus, which earned early nineteenth-century political economy its reputation as the "dismal science." This is more apparent than real, however. These thinkers, Ricardo foremost among them, argued on the basis of two presumed natural laws, the law of diminishing returns and the Malthusian law of population, that the accumulation of capital would eventually run out of steam because wages and rent would so far eat into profits as to leave capitalists with neither the wherewithal nor the incentive to continue accumulating. It is important to recognize that there was a very strong political-ideological element in this argument: it was more or less deliberately designed to bolster the case for free trade. The abrogation of the corn laws (agricultural protectionism) would effectively repeal the law of diminishing returns as far as England was concerned and thus liberate the accumulation process from its shackles. This goal was attained in 1846, after which the economists stopped worrying about threats to the future growth of capitalism.

additional capital goods has survived to this day in textbooks, popular economic writings, and most strikingly in the supply-side theory which provides the ideological rationalization for the Reagan administration's economic policies. According to this theory, the malfunctioning of the U.S. economy in recent years stems from too much spending and not enough saving, a combination which is supposed to have produced a low growth rate, with its attendant evils of stagnation, falling profits, rising unemployment, and all the rest.

But at just about the time Alfred Marshall was issuing the eighth and final edition of his famous *Principles,* capitalism was well into a transitional period from adolescence to maturity, climaxed by the post-First World War boom of the 1920s in the United States, by then the world's leading capitalist nation. This boom, like others before it, was fueled by a surge of investment, this time especially in the automobile and related sectors (oil, rubber, glass, highway construction, suburban housing). But the boom also displayed new features reflecting fundamental economic changes. Most important were (1) the burgeoning of consumer credit as a booster to the final demand for the products of these leading industries, and (2) a gradual downdrift of the manufacturing capacity utilization rate after 1925. These were clear signs that despite the injection of strong debt-generated demand for consumer goods, the rate of investment which powered the boom of the 1920s was unsustainable. The crisis of 1929 was a crisis of *overaccumulation.*

Previous capitalist crises had also involved overaccumulation in the sense that investment in the preceding booms had, for largely speculative-financial reasons, outrun demand. But this imbalance between investment and demand in earlier crises turned out to be a temporary phenomenon. After a period of deflation and price readjustments, the investment process resumed its stimulative role: the conventional wisdom which took for granted an unlimited underlying demand for investment was thus empirically supported and became ever more firmly entrenched.

That there was something fundamentally different about the crisis of 1929, that in this case overaccumulation was more than a temporary phenomenon and in fact marked a decisive change in the functioning of the system—this was not apparent to anyone in the early years of the Great Depression. It is hardly an exaggeration to say that the entire economics profession at the time expected growth, rooted in the accumulation process, to resume as it always had in the past.* To be sure it was soon recognized that the downturn precipitated by the crisis was unusually sharp and that the recovery would probably be slow and lengthy. But that had happened before—in the 1870s and 1890s—and it was not hard to find what seemed to be satisfactory explanations in the unique events surrounding the First World War and its aftermath.

What finally drove home the message that things really had changed, that (in our metaphor) capitalism's transition from adolescence to maturity had been completed, was the recession of 1937-38. This event was quite unprecedented. It was not a mere short-term setback but a sudden and steep decline at a time when the upswing from the depression which began in 1933 still had a long way to go to reach what by the standards of past business cycles could be considered full recovery. The unemployment statistics tell the essential story. The peak rate of unemployment was registered in 1933 at 24.9 percent of the labor force. This declined by 1937 to 14.3 percent, and then jumped up again to 19.0 percent in 1938. What these figures describe was at the time something new under the capitalist sun—a steep recession in the midst of a deep depression.

How could this be explained? No one had any doubt about the proximate cause—the breakdown of the capital accumulation process. In the first years of the depression net investment not only disappeared, it was actually replaced by net disinvestment, i.e., the using up of more capital than was produced. And such positive investment as did take place in the recovery beginning in 1933 was mainly to replace what had been lost. When this was accomplished, the steam went out of the process again, precipitating the relapse of 1937-38.

Not surprisingly, a generation of economists brought up on the assumption of an unlimited demand for investment (as ex-

* This comes through very clearly in two detailed studies of the period: William E. Stoneman, *A History of the Economic Analysis of the Great Depression in America* (New York: Garland Publishing, 1979); and Dean L. May, *From New Deal to New Economics: The American Liberal Response to the Recession of 1937* (New York: Garland Publishing, 1981). These books will be reviewed in a later issue of MONTHLY REVIEW.

emplified in the above-quoted passage from Alfred Marshall's *Principles of Economics*) was at a loss to account for such strange goings-on. Could the trouble be not in the *demand* for real investment but in the *supply* of money capital to finance investment? Hardly. That finance was available was evident from the fact that interest rates had fallen to purely nominal levels (treasury-bill rates were 0.14 percent and the Federal Reserve rediscount rate was 1.50 percent in 1936); and any real pickup in the rate of investment would have boosted corporate profits, thus generating the funds for further investment.

What the recession of 1937-38 revealed was thus the total inability of bourgeois economic theory to cope with the new phenomenon of capitalist maturity. We repeat: underlying this theory insofar as it related to economic growth and the nature of economic fluctuations, was the (usually implicit) assumption of an unlimited demand for investment. Given this assumption, interruptions of growth could be caused only by failure of the institutional (financial, governmental) mechanism of the system to function properly. The very idea that such interruptions might flow from the inherent logic of the system itself rather than from the faulty functioning of its mechanism was ruled out in advance.

The first serious challenge to this deeply ingrained orthodoxy came in the form of Keynes's *General Theory of Employment, Interest, and Money,* published in 1936, i.e., shortly before the recession which began late the following year. Although it has not been widely recognized, it was this feature of the *General Theory* which more than anything else marked it as a turning point in the development of bourgeois economic theory. For the first time the possibility was frankly faced, indeed placed at the very center of the analysis, that breakdowns of the accumulation process, the heart and soul of economic growth, might be built into the system and non-self-correcting. The stage was thus set for a sweeping reconsideration of the whole theory of investment.

What the *General Theory* dealt with as a theoretical problem was posed as an intensely practical problem by the recession of 1937-38. The combination sent shock waves through the economics profession, touching off a debate that could and should have developed into the most searching and significant intellectual confrontation the United States had experienced since the anti-slavery struggle of a century earlier. The debate was initiated by the publication in 1938 of Alvin Hansen's *Full Recovery or Stagnation?*, and the issue was joined the following year in the second volume of Joseph A. Schumpeter's monumental treatise on *Business Cycles.** Hansen and Schumpeter were probably the two most prestigious American economists of the 1930s, and the fact that they took the lead in debating this most crucial of all current economic problems seemed to guarantee that one of those "splendid tournaments" in the history of economic thought of which Marx had written was about to take place.**

But it was not to be. Ominous war clouds gathered over Europe in 1938 (Hitler annexed Austria in March, and the Munich Pact sacrificing Czechoslovakia was signed in September), and the outbreak of hostilities in 1939 completed the shift of attention, in the United States as elsewhere, from depression to war preparation. It soon turned out that the two were alternatives not only as objects of public attention but in practice as well. The unemployment rate which remained over 17 percent in 1939 dropped rapidly thereafter until it reached its wartime low of 1.2 percent in 1944.

Not surprisingly, the debate which had begun so auspiciously in the wake of the recession of 1937-38 receded into the background and died out completely after the war. The all but total lack of attention paid by the economics profession to Josef Steindl's penetrating work *Maturity and Stagnation in American Capitalism* (1952) proved, if indeed proof was needed, that the trauma of the 1930s had been forgotten. It is not true, however, that Keynes was forgotten. What did happen in the new postwar conditions was that the emphases of Keynesian theory, as it had been interpreted by Hansen and his followers in the 1930s, were drastically revised. The problem of the long-run demand for investment, on which Keynes's views were very different from those of Marshall, gave way to concern over fluc-

* See "Why Stagnation?" in this space in MR, June 1982.

** Preface to the second edition of volume 1 of *Capital*. Marx was referring specifically to the "quarrel between industrial capital and aristocratic landed property," which elicited the participation of England's outstanding economic thinkers in the decade of the 1820s.

tuations in demand for investment in the course of the business cycle. And Keynes's great achievement was now seen not as a highly original contribution to the understanding of capitalism's basic *modus operandi* but as the invention of a set of clever recipes to counteract the ups and downs of the business cycle. In the depression phase monetary policy should aim to lower interest rates, while fiscal policy should deliberately create government deficits in order to stimulate aggregate demand for goods and services, the market being left to determine which goods and services and in what proportions. In the prosperity phase of the cycle this policy mix should be reversed to forestall "overheating" of the economy (a favorite expression): interest rates should be increased, government spending reduced, and taxes raised, with the resulting budgetary surplus being used to repay the debt incurred to finance the preceding deficit.

This was the gist of what gradually came to be called the "new economics." Joan Robinson and some others among Keynes's followers from an earlier period called it Bastard Keynesianism.

The reason why the emerging debate of the 1930s was interrupted and forgotten while Keynes was being turned into a quite ordinary purveyor of business-cycle remedies is obvious: for some three decades after the beginning of the Second World War capitalism seemed to have recaptured its youth.* Recessions were mild, and after every setback investment bounced back at least as vigorously as during any comparable period in the earlier history of capitalism. The old orthodoxy of the unlimited demand for investment, which had been briefly challenged in the 1930s but never overthrown, simply reasserted itself as an unstated axiom of the new economics. The truth is that, apart from claims to be able to control the business cycle, the new economics is fundamentally no different from the old economics. And when the problems of the 1930s—the breakdown of the accumulation process, the onset of stagnation, the soaring of unemployment—began to reappear in the 1970s, the new economists showed themselves to be as helpless as their pre-Second World War ancestors.

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* We have discussed the reasons for this many times in this space. The most recent, very brief summary appears in "Why Stagnation?" referred to in the footnote on p. 6.

One consequence of this failure of the new economics was to open the door to the inane dogmas of monetarism and supply-side economics and their misbegotten offspring, Reaganomics. Put into practice—to the extent that a combination of incompatible and contradictory policy prescriptions can be put into practice—this monstrosity has made matters worse and looks like continuing to do so for at least another two years. The other main consequence is that the large body of respectable and respected economists who are too intelligent and/or too honest to buy the rubbish that has to be taken seriously in Washington these days are at a loss to offer meaningful advice to policymakers or to contribute to the formation of an intelligent public opinion on many of the most important issues of our time.

Just how bad the situation has become is well illustrated by the effort of one of the best of the younger economists to find a way out of the impasse we have been discussing. In a remarkably outspoken article in the *New York Times* Sunday magazine section ("The Great Stagnation," October 17, 1982), Lester Thurow, Harvard-trained professor of economics at MIT, presents a grimly accurate description of the present world-wide capitalist crisis, concluding:

> All of which adds up to this: The world economy is likely to continue sinking into the quicksands. We are likely to have more of the rising unemployment and increasing financial distress we have been experiencing for the last three and a half years. There is simply no indication that the Western nations, individually or jointly, have any program or any approach that is capable of turning the tide.

What follows in the article's last paragraph, however, deserves to be awarded the prize for Anti-Climax of 1982: "From the perspective of this economist. . .the solution lies in old-fashioned Keynesian stimulus. Until we are willing to practice it, America and the world are likely to remain mired in what might be called the Great Stagnation." One rubs one's eyes in wonderment. Talk about practicing stimulus! During the 1970s, the decade in which the Great Stagnation set in, there was not one year in which the federal budget was balanced, and the aggregate deficit in the twelve years 1970-81 was over $400 billion. And the Reagan administration, for all its railing against its big-spending predecessors, has set out on a course of tax cuts for the rich and handouts to the Pentagon which promises to make them look like pikers: latest budget estimates project deficits of well over $200 billion a year for a long time to come. Nor is this the only kind of stimulus that has been practiced in recent years: monetary and related banking policies have been crucial ingredients in the unprecedented explosion of private debt which has characterized the entire post-Second World War period. And yet all these multifaceted forms of stimulation have dismally failed to reinvigorate the accumulation process which Thurow, like all other economists, recognizes to be the key to the health of capitalist economies.

Talk of old-fashioned Keynesian stimulus thus turns out to be as irrelevant as the nonsensical chatter of the monetarists and the supply-siders. But this doesn't mean that Keynes is irrelevant. As we noted above, his *General Theory* of 1936 set the stage for a sweeping reconsideration of the whole theory of investment. Unfortunately, this reconsideration never materialized. The late Michal Kalecki, the Polish economist who has justifiably been credited with "inventing the Keynesian revolution" before Keynes, commented on this subject shortly before his death in the following terms:

> Why cannot a capitalist system, once it has deviated downwards from the path of expanded reproduction [growth], find itself in a position of long-term simple reproduction [no growth]? In fact we are absolutely in the dark concerning what will happen in such a situation so long as we have not solved the problems of the determinants of investment decisions. Marx did not develop such a theory, nor has this been accomplished in modern economics. Some attempts have been made in the development of the theory of cyclical fluctuations. However, the problems of the determination of investment decisions involving. . .the long-run trend are much more difficult than in the case of the "pure business cycle." . . . One thing is clear to me: the long-run growth of the national income involving satisfactory utilization of equipment is far from obvious. (*Social Science Information,* December 1968)

We do not mean to suggest that what is needed is simply a "theory of the determinants of investment decisions": the problem is much broader and includes a crucially important historical dimension which has received some attention in recent years from economists attracted by the hypothesis that capitalist development during the last two hundred years or so has taken place in long cycles. All we are saying is that this is a much neglected and underdeveloped area of economic inquiry which can no longer be neglected by any economist who wants to be taken seriously on the most important problems of our time. As far as bourgeois economics is concerned, Keynes started it, and it would seem appropriate for his followers to take up where he left off.

But there are also other reasons why Keynes is relevant. A large part of the *General Theory* was devoted to showing how and why classical and neoclassical economics alike were wrong in assuming that there are built-in tendencies in capitalist economies to operate at full employment and hence to self-correct any deviations from full employment. But he didn't stop there. He went on to give his views on how the state in capitalist societies could and in his opinion should remedy this lack of an automatic regulatory mechanism. In the postwar period, as noted previously, Keynes's followers, or at any rate those who became the prophets of the new economics, vulgarized these opinions to the point of turning Keynesianism into a cure-all for the capitalist business cycle.

Keynes himself, however, while of course concerned with the business cycle, went much further. Anyone who will take the trouble to read the last chapter of the *General Theory* entitled "Concluding Notes on the Social Philosophy Towards Which the General Theory Might Lead," will recognize a mind that carries on in the tradition of critical bourgeois thinkers of the past—those whom Marx, in the Preface to the second edition of the first volume of *Capital* called "disinterested inquirers" as opposed to "hired prize-fighters." Keynes saw clearly that capitalism contained what in the long run was a potentially fatal flaw, and he wanted to eliminate it, not merely patch it over with a band-aid. And in pursuit of this end he was willing to contemplate reforms as radical as the far-reaching equalization of the distribution of income through the eventual elimination of rentier incomes (i.e., interest and rent), and the "somewhat comprehensive socialization of investment." He recognized that the enlargement of the functions of government which these reforms would entail "would seem to a nineteenth-century publicist or to a contemporary American financier to be a terrific encroachment on individualism," a proposition which, if made today, would have to be rated a terrific understatement.

"Is the fulfillment of these ideas a visionary hope?" Keynes asked in a concluding section. "Have they insufficient roots in the motives which govern the evolution of political society? Are the interests which they will thwart stronger and more obvious than those they will serve?" To which he replied: "I do not attempt an answer in this place. It would need a volume of a different character from this one to indicate even in outline the practical measures in which they might be gradually clothed."

We are not suggesting of course that Keynes had the answers or that he would have come up with them in the sequel to the *General Theory* which never got written. What is important is that if he pursued this line of thought he would have had to confront the basic issue of the power of the ruling class. Whether he would have done so, in view of his ideological attachment to capitalism, is naturally a matter of speculation. Readers of MONTHLY REVIEW know that, in contrast to Keynes, we have an entirely different view of what it will take to liberate the enormous latent power of today's advanced economies from the stranglehold of capitalist control. But unlike the establishment economists of our time, including his latter-day followers, Keynes at least knew that there were real and deadly serious problems to be dealt with, and he was not afraid to tackle them. He was a disinterested inquirer, not a hired prizefighter. Are there any of them left today?

Since it is not for us to create a plan for the future that will hold for all time, all the more surely what we contemporaries have to do is the uncompromising critical evaluation of all that exists, uncompromising in the sense that our criticism fears neither its own results nor the conflict with the powers that be.

—Karl Marx