Keynesian Economics:

In Search Of Unnatural Stability.

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Abstract.

I shall argue that Keynesian economics shares the same lack of scientific rigor as the mainstream economics it attempts to criticise. The difference in approaches is political, with both equally failing to explain the behaviour of the capitalist economy. In contrast Marx's analysis of capitalism predicts tendential behaviour that does fit empirical evidence, noticeably concentration, growing inequality and continued cyclical behaviour/inherent instability (ultimately resulting from the tendency for profitability to fall in boom). Finally I consider how application of Keynesian economics may have, and continue to, contribute to the relative stagnation of the economy since the end of the Golden Age.

(101 words)

Keywords: Keynes, Marx, Inherent-Instability, Stagnation.

Introduction.

There are many Keynes, or rather many who have and continue to interpret Keynes in lots of different ways.[1] New generations are taught Keynes in colleges and universities, usually without the inconvenience of actually having to read Keynes' work! For most, as popularised and reproduced through the media as well as in the education system, Keynes is just a set of simple economic 'truths' with associated 'wise' policy prescriptions, which are usually connected with the political left rather than the political right. With no 'single' Keynes to consider I will critique the Keynes I have come to know through reading his own work, and in particular his *General Theory*.[2] Let me be clear I have a Marxist perspective, so it is from this perspective that I critique Keynes.[3] I shall argue that the *General Theory* is a failed attempt to 'prove' that the economy is capable of being 'managed' 'efficiently' by policy makers. I contend that such an aspiration fails to grasp what the economy/capitalism is all about, whereas Marx's critique of capitalism precisely does reveal capitalism's central tendencies because he does not, like Keynes or the mainstream, duck the question of what capitalism actually is. The goal of achieving sustained stability/full employment is nothing but a political delusion, which can not accept the implication of capitalism being inherently unstable, a system that must be transcended because it can not be successfully reformed.

[1] For example, P. Davidson, *Money and the Real World.* (Hong Kong: Macmillan, 1978), V. Chick, *Macroeconomics After Keynes* (Cambridge Mass: MIT Press, 1983), S. Rousseas, *Post Keynesian Monetary Economics* (Chippenham: Macmillan, 1998) and G. Tily, *Keynes General Theory, the Rate of Interest and Keynesian Economics* (Chippenham: Macmillan, 2007).
[2] J.M. Keynes, *The General Theory of Employment, Interest and Money* (London and Basingstoke: Macmillan, 1936).
[3] To be precise I follow the Temporal Single System Interpretation (TSSI) of Marx, see A. Freeman and G. Carchedi (eds) *Marx and Non-Equilibrium Economics* (Cheltenham: Edward Elgar, 1996). The TSSI argue that Marx employed a sequential (to time) and non-dualistic (to price and value) approach, and when we follow such an approach Marx's value theory is consistent and his prediction of a

FEATURES OF KEYNESIANISM.

A Focus on Demand.

In Chapter Two of the *General Theory* Keynes is keen to make what he does not believe in sound foolish. How could anyone be as foolish to believe Say's law that supply creates its own demand, or the idea that an act of saving would lead to an act of investment? The wise must recognise that it is demand that brings forth supply, and it is savings that adjust to the level of investment. In Chapter Ten of the *General Theory* Keynes builds on Kahn's concept of a multiplier effect of increased investment on increased income.[4] Conventionally students learn Keynes' circular flow of income between households and firms, with it being the government's role to manage injections (investment, government spending and exports) and withdrawals (saving, tax and imports) such as to generate sufficient demand to support full employment. As demand is low in a slump the problem must be a low level of demand, which the government must simply boost to solve the problem. The problem is 'accidental'; the role of the economist is to be the wise man to point this out to a grateful government.

The link to production slips away as problems of circulation (buying the output) come to the fore. But is Say's law so laughable? If we follow Marx's approach it is in production, not circulation, that we uncover the trick that allows the capitalist economy to actually grow. In production the value of the inputs (constant capital, comprising of raw materials, use of machines etc, and variable capital, meaning the workers' wages) is augmented by a surplus value, the value of the workers' unpaid labour gifted to the capitalist for free. It is this surplus value which provides the basis for potential growth if it is invested in expanding production, or it may be simply be frittered away on luxury consumption (equally contributing to current demand), or hoarded in money (potentially creating a shortage of demand). Marx illustrates the process in his reproduction schemes,[5] comparing a stationary/identically repeating

tendency for the profit rate to fall in boom is confirmed, see A. Kliman, *Reclaiming Marx's "Capital"* (Lanham, MD: Lexington Books, 2007).

[4] R.F. Kahn, 'The Relation of Home Investment to Unemployment', *Economic Journal*, June (1931).

[5] K. Marx, *Capital: A Critique of Political Economy*, Volume 2 (London and New York: Penguin and Vintage, 1978).

economy (simple reproduction), where capitalists unproductively consume the surplus, to a growing economy (expanded reproduction) where capitalists productively employ/invest the surplus.

So supply, or rather capitalist production, does create the potential for demand, or more precisely the continuation of production on the same or upon an expanded scale. Furthermore, focusing on production allows us to see that production can simply be for production's own sake i.e. may represent a build up of productive capital by capitalists, each trying to out-compete each other by being the most advanced/productive producer. We shall consider below the role of such capitalist behaviour in the tendency for the profit rate to fall in boom, but for now mention the possibility of production for production's own sake to remind the reader that the economy is not just about 'we' the consumers. Growth under capitalism simply does not rely on consumer led booms. Managing the economy can not just be about managing demand and ignoring the purpose of the economy i.e. the growth of capital/making a profit. So, if you focus on demand too long the danger is forgetting production/supply and the point of the economy in the first place.

Mainstream Microeconomic Foundations.

While being 'radical' with demand Keynes remained conventional on supply in the *General Theory*:

> In emphasising our point of departure from the classical system, we must not overlook an important point of agreement. … with a given organisation, equipment and technique, real wages and the volume of output (and hence of employment) are uniquely correlated, so that, in general, an increase in employment can only occur to the accompaniment of a decline in the rate of real wages. Thus I am not disputing this vital fact which the classical economists have (rightly) asserted as indefeasible.[6]

Just as for the mainstream, in this 'isolated' labour market, imagining diminishing returns delivers a downward sloping labour demand curve. Keynes again makes his opinion on the behaviour of real wages in the short run clear:

[6] Keynes, *The General Theory*, op. cit., p. 17.

> Even if one concedes that the course of the short-period marginal cost curve is downwards in its early reaches, Mr Kahn's assumption that it eventually turns upwards is, on general common-sense grounds, surely beyond reasonable question; and that this happens, moreover, on a part of the curve which is highly relevant for practical purposes.[7]

Workers have to pay for their full employment through being moderate about their wages. If we assume technological change is improving productivity then real wages can rise, but if at any time unemployment is too high, some degree of wage moderation will have to follow. The focus is actually, like for the mainstream, still placed on the behaviour of workers, with the one exception that in the short run some workers can be involuntary unemployed, because those in work are unable to control the real wage as they can only bargain over the nominal wage. We shall consider the question of money illusion below.

Let us now turn to Keynes' marginal efficiency of capital schedule. He focuses on explaining how the schedule will potentially wildly swing with expectations, but again, like for the demand for labour, 'common-sense' notions of diminishing returns ensures the schedule slopes down. Just as workers must moderate their wages to achieve full employment capitalists may have to accept a lower rate of return if investment is going to be high enough to generate full employment, as if capitalists picked investment schemes in such a 'god-like' logical fashion. Yes Keynes does talk about uncertainty, but his frame of thinking still imagines an 'equilibrium' world of choice and potential 'rationality', Keynes just hopes for a superior equilibrium/set of choices. Now, given that private capitalists are unlikely to public-spiritedly accept low returns, the state, as a public investor/owner of nationalised industries, must play a role in investing for full employment.

The central point is that Keynes thinks he has proved that a full employment equilibrium is out there, for the government to help the economy to move towards, and stay as near to as possible. **As such Keynes' *General Theory* is not a theory of crisis, rather it is a theory of what to do if there is a crisis.** To put it another way, there is no need for crisis in either the mainstream or Keynes' understanding of capitalism, so as it has no role to play crisis is just an unfortunate event.

[7] J.M. Keynes, 'Relative Movements of Real Wages and Output', *Economic Journal*, March (1939), reprinted in J.M. Keynes, *Collected Writings Volume VII*, (London and Basingstoke: Macmillan, 1971) p. 405.

In contrast Marx's 'micro-foundations' do provide an explanation of why the economic cycle, and crisis as part of that cycle, endogenously follows from the tendential behaviour of capitalists. Competition between capitalists drives them forward in a process of technological change, that both cheapens the product and tendentially replaces labour with increased automation, reducing the rate of profit.

The trick to understanding Marx's argument is to appreciate that the total profit is determined by the total surplus labour extracted from the living workforce – the difference between the total hours they work and the value of the wages they are paid. All the other inputs, the machines, raw materials etc, purchased, on average over all commodities, at their value from other capitalists, can only transfer their value to new output (they are thus called constant capital). So the growth in the value of output over inputs is thus the total hours worked minus the paid labour-time/the value of wages paid. This surplus value can be expressed in units of money or in units of labour-time. It is a definite amount, providing a definite limit to total profit.

If capitalists appropriated the value they produced then an industry that employed much labour and little constant capital would have a high profit rate (surplus-value divided by constant capital plus the workers wages, which is termed variable capital), compared to one that employed little living labour and much constant capital. Marx provided the solution[8] to this 'apparent contradiction'.[9] To equalise the profit rate across industries with different proportions of living labour to constant capital, commodities' prices (appropriated values) have to differ from their produced values. Furthermore, within industries Marx recognises that there are a diversity of firms, notably, leading, average and below average productivity producers. The average firm in an industry would appropriate the average profit rate in that industry, which would be the economy's average profit rate if profitability had equalised across all industries.[10]

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[8] K. Marx, *Capital: A Critique of Political Economy*, Volume 3 (London and New York: Penguin and Vintage, 1981), ch. 9.
[9] K. Marx, *Capital: A Critique of Political Economy*, Volume 1 (London and New York: Penguin and Vintage, 1976), p. 421.
[10] This assumes that no monopolies exist. Marx argued that monopolies should be removed from the total (their capital and their profit). So, to be precise, the average firm in a competitive industry would

So competition can change the distribution of total profit between capitalists, but not its level. Capitalists can individually appropriate a different value to the value they produce, but in aggregate the total appropriated value of output must equal the total produced value of that output. Now, in aggregate, if labour-saving technology change increases the proportion of constant capital plus variable capital (together the denominator of the profit rate) to surplus-value (the numerator of the profit rate) the profit rate must fall in aggregate. So why then do individual capitalists try to out compete each other by investing in labour-saving technological change:

> No capitalist voluntarily applies a new method of production, no matter how much more productive it may be or how much it might raise the rate of surplus-value, if it reduces the rate of profit. But every new method of production of this kind makes commodities cheaper. At first, therefore, he can sell them above their price of production, perhaps above their value. He pockets the difference between their costs of production and the market price of the other commodities, which are produced at higher production costs. This is possible because the average socially necessary labour-time required to produce these latter commodities is greater than the labour-time required with the new method of production. His production procedure is ahead of the social average. But competition makes the new procedure universal and subjects it to the general law. A fall in the profit rate then ensues – firstly perhaps in this sphere of production, and subsequently equalized with the others – a fall that is completely independent of the capitalists' will.[11]

The answer is simple, the leading capitalists make surplus-profit through pioneering the technological changes that in fact, in time, will reduce the overall average profit rate. As this behaviour/process of competition between capitalists tends to occur in boom the profit rate will tend to fall in boom, sowing the seeds for eventual crisis. Marx does identify counter-tendencies,[12] which can slow/temporarily act against the overall tendency for the profit rate to fall. Notably, as technological change cheapens the value of commodities, if the worker 's wage stays constant in terms of the number of commodities they consume, he/she is cheapened. Say a worker needs to be paid 3 hours of value to buy the same commodities as 4 hours had previously bought, assuming the working day remains at 8 hours, surplus-value per day would rise to 5 hours from 4. Marx terms this the production of relative surplus value, with, in contrast, an increase in absolute surplus value resulting from lengthening the working day or cutting workers' standard of living.

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appropriate the average profit rate in that competitive industry, which would be the competitive economy's average profit rate, if profitability had equalised across all competitive industries.

[11] Marx, *Capital*, Vol. 3, op. cit., pp. 373-374.

[12] Ibid., ch. 14.

No matter the reason, wages can only drop so far, in the extreme to nothing, but the build up of constant capital is boundless. It is this production for the sake of production, this boom of 'animal spirits', that both drives boom and tends to drive the profit rate down, making eventual recession inevitable rather than just an accidental event.

In recession constant capital is devalued by being physically scrapped or, most significantly, by being 'morally' depreciated i.e. by being reduced in price. The price of factory space and machinery falls. Now, as old capitalists die in bankruptcy, and new owners take-over, a much smaller capital is necessary. As it is for real capital, it is also so for fictitious claims on capital in the form of shares. Capital is built up in booms to be wiped out in slumps, thus restoring the profit rate and making renewed boom possible. Marx consequently calls capitalism a self-defeating system, temporarily the system must fall apart so it can renew itself again. Marx does not predict that capitalism will end through crisis, rather mankind will wise up to the fact that capitalism does not only tend to produce growing inequality, it is also inherently unstable, and thus must be replaced/transcended.[13]

Marx explains how workers are both damned in the boom and in the slump.[14] The tendency to accumulate more constant capital than variable capital helps workers to be invariably in a state of over-supply. In booms the production of relative surplus-value reduces wages in value terms, while more direct acts of increased exploitation (through reductions in workers' standard of living and increases in the intensity and duration of the working day) are imposed during regular slumps.

It makes sense to see the level of wages and the level of employment as both being dependent on the level of accumulation, thus throwing away any mainstream notions of downward sloping labour demand curves and marginal efficiency of capital schedules. In booms rising investment/accumulation is driven by capitalists' competitive search for profit, causing employment to grow, with wages in 'real' terms ('physical' quantities of wage goods) potentially growing (depending on the strength

[13] Marx, *Capital*, Vol. 1, op. cit., pp. 929-930.
[14] Ibid.,p. 799.

and organisation of the working class) while they may actually be falling in value terms! In slump employment falls and wages by all measures are likely to fall. The price of simple (unskilled) labour is determined by its cost of reproduction, while wages for skilled labour are higher to cover the cost of acquiring that skill. Workers lucky enough to be in short supply may enjoy temporarily higher wages, but the more expensive they become the greater the incentive is to replace them through technological change, which we must remember both requires skilled workers and de-skills workers.

In contrast to the limited returns workers can expect, profits are only limited by capitalists success i.e. there attempts to out invest/mechanise each other. While the rate of profit tends to fall in boom, the mass of profit is likely to rise, as total employment grows (even if employment were to remain stable the production of relative surplus value would grow total profit). Leading producers will be rewarded by excess/above average profit. In contrast to real workers, those whose 'wages' are not really wages but a distribution of profit (produced directly within that capital or captured from elsewhere), can receive returns so far in excess of their reproduction costs that even capitalists find it hard to justify this to the rest of 'society'.

Competition between capitals tends to lead to fewer firms surviving in each industry (concentration). The most advanced leading producers drive down the unit value of output, sweeping away any old fashioned small scale laggard producers. In agriculture we can see how this process has driven peasant farmers off the land and into the towns all over the world. Leading producers can use their high profits to retain their leading status and thus their high profits. Given leading producers are concentrated in the most 'advanced' countries, their governments' can act as good collective capitalists, helping with research, education, legal protection and the ability to force markets open.

So, we have a tendency to concentration/the unequal success of leading producers, and a tendency to inequality of returns to those who are workers and those who are more closely associated with capital. Furthermore, these tendencies to inequality operate both within economies and between economies, to the extent we achieve a genuine global world market.[15] Finally, most significantly to our critique of Keynes, we must not forget that the economy is following an inevitable dynamic process of boom and slump; it simply can not be maintained at full employment through all moderating their behaviour/returns. Proper micro-foundations should thus account for the tendencies in the economy we could all see if we were actually looking for them.

Benign Attitude to Inflation.

Before we consider inflation we must ask ourselves what is the key unit that, through adjusting purely nominal terms to it, best helps us to understand the economy? In conventional macroeconomics the unit is 'real' terms, meaning the physical quantity of commodities. Keynes informs us in Chapter Four of the *General Theory* that he is keen to move beyond conventional 'real terms'. He develops the notion of a wage unit for a standard hour of labour, which can be expressed in terms of money or labour-time. The wage unit can rise or fall, while we can express prices and total output in this unit. However I am unaware of any significant results that actually follow from Keynes definition of the wage unit as his ideal unit of measurement. Furthermore, I am unaware of any serious development of the wage unit by new-Keynesians (who tend to work in the mainstream's 'real' terms) or post-Keynesians (who tend to just focus on nominal terms and circulation).[16]

From a Marxist perspective, it is of no surprise that the wage unit did not take off. Marx's unit of measurement is like Keynes', an hour of simple labour, but its monetary expression is not its wage, which is variable (explaining why it is called variable capital), but its value, meaning the monetary expression of an hour of newly created value. This value does not follow from the distribution of value, rather the

[15] J. Smith, 'Imperialism and the Law of Value', presented to the *Joint conference of the Association for Heterodox Economics, the International Initiative for Promoting Political Economy and the French Association for Political Economics*, Paris, July (2012), analyses the situation in the global south.

[16] M. Desai, *Marxian Economics* (London: Basil Blackwell, 1979) sees a connection between a simultaneous solution of Marx's transformation problem that equates the total value of wage goods to the total level of variable capital, and the idea of Keynes' wage-unit. From the perspective of the TSSI of Marx, as such simultaneous solutions of Marx's transformation problem fail to ensure the total price of output equals its value, or total profit equals total surplus value, if they equate the total value of wage goods to the total variable capital, they have nothing to say about Marx's theory of value, which requires all three aggregate equalities to hold (as they do if we employ the TSSI of Marx).

value of total output equals the value transferred in production by constant capital and the total living labour worked in production. So if wages are higher, profit is lower, with total value remaining unchanged. In contrast, if we employed Keynes's wage unit and wages fell relative to the price of inputs and profit, total output in wage units would rise (inputs and profits would represent more labour-time because the 'price' of labour-time falls), but all that has actually happened is a distributional change. This is no better than total output (or profit) being dependent on relative prices (the way commodities varying in physical/use-value terms are aggregated) in mainstream macroeconomic models.

One of the key themes of the *General Theory* is the idea that output will adjust more than prices in the short run i.e. that prices and wages are relatively sticky. Such a 'reality' is essential to the effectiveness of expansionary policy in pushing the economy to full employment. The point of Chapter 19 of the *General Theory* is to rule out the usefulness of nominal wage cuts, the mainstream's price adjustment route, to stimulating the economy back to 'equilibrium'. The government would do better to lower the interest rate, by increasing the money supply, than trying to cut nominal wages. As Keynes assumes diminishing returns in the short run, real wages would have to fall if employment did increase, meaning prices would have to rise if nominal wages remained constant. Keynes had seen for himself how workers in the UK strongly resisted actual cuts to their nominal wages in the 1920's and 1930's. So, to ease the 'necessary' wage adjustment, it would be better for prices to rise and for nominal wages to fail to keep up. This form of real wage cut, this money illusion, seems far less painful, and appeared to be far more practical for the unionised UK economy. Finally for Keynes in the long run:

> we are still left with the choice between a policy of allowing prices to fall slowly with the progress of technique and equipment whilst keeping wages stable, or of allowing wages to rise slowly whilst keeping prices stable. On the whole my preference is for the latter alternative, on account of the fact that it is easier with an expectation of higher wages in future to keep the actual level of employment within a given range of full employment than with an expectation of lower wages in future, and on account also of the social advantages of gradually diminishing the burden of debt, the greater ease of adjustment from decaying to growing industries, and the psychological encouragement likely to be felt from a moderate tendency for money-wages to increase.[17]

[17] Keynes, *The General Theory*, op. cit., p. 271.

Keynes would rather have price stability over 'natural' deflation. As Keynesians came to dominance in the Golden Age of growth after the Second World War (approximately from 1950 to 1975) their 'toleration' extended to controlled inflation becoming the best option. In 1957 Phillips provided governments with a menu, statistical evidence shows if on average there is deflation over the cycle unemployment will be higher than if on average there is inflation over the cycle.[18] Wise governments should thus tolerate 'controlled' inflation in search for lower unemployment. The strength of this observation, because it is not a theory, is that it appeared to fit events; was not life so much better in the moderately inflationary Golden Age than in the deflationary depression before the war?

Returning to Keynes's view of the long-term behaviour of prices and wages, technological change will increase real wages, and it matters not if wages are constant, with prices falling with technological change, or wages rise with prices being constant. It does however matter to all with nominally fixed debts (and, for that matter, all with nominally fixed incomes from rent or investments), so let us choose to erode the value of money. Before we consider how the value of money can be eroded when prices are stable, let us point out how Keynes is merely assuming that the wages of workers will rise in real terms. He does not account for why workers should be able to successfully push up their material standard of living. Clearly they might, but a Marxist understanding of exploitation and growth helps us understand that they need not, as booms are led by capitalists' productive (advancing capital) and non-productive (luxury consumption) expenditure.

Whether the value of money is eroded depends on what we assume money is! If somehow we imagine the wage unit represents the value of money, then a stable wage unit means a stable value of money. But the prices of goods are falling in Keynes scenario with a constant wage, so by conventional 'real' terms it would make sense to say the value of money, its purchasing power, is rising. It is equally unclear how, if prices were constant, an increase in the wage unit would represent inflation/an erosion in the value of money.

[18] A.W. Phillips, 'The Relation Between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-1957', *Economica*, Vol. 25 (1958), pp.283-299.

In contrast for Marx the matter is simple, his unit is value, an hour of abstract simple labour, which can be expressed either in money or labour-time. The TSSI of Marx term the total price (appropriated value) of output at the end of each period, divided by its total produced value in terms of labour-time, the monetary expression of labour-time (MELT). The MELT allows us to compare value at different points in time, it is what we must adjust nominal terms by to see what is really happening in terms of our choice of unit, value in terms of labour-time. Technological change reduces the value of commodities, meaning the abstract labour required for their production, so if the MELT is to stay constant their price must fall. To keep the MELT constant we must have a rate of deflation equal to the rate that the value of commodities falls through technological change. MELT is not effected 'purely' by changes in the distribution of income. At the end of a period the total produced value of output equals the total value transferred to this output by constant capital and the total living labour worked in production. If wages were higher or lower total produced value in terms of labour-time would be the same, as the distribution of living labour between profit and wages does not effect its level. Also, for given prices, the appropriated value of total output in money is the same, no matter the distribution of new value between wages and profit. So it is Marx, not Keynes, who actually successfully developed a viable alternative to purely nominal or 'real'/'physical' terms.

Finally we should note how it was the perceived failure to deal with inflation that led to 'Keynesian' economics being replaced by, firstly monetarism, and then modern mainstream economics. And yet for both monetarists and believers in rational expectations, how can the rate of inflation matter anyhow if money is assumed to be neutral in the never very far away long run?

Control Freaks.

I don't think it is unfair to say that Keynes, and Keynesians in general, with genuine good intent, believe in controlling the economy. In the preface to the German edition of the *General Theory* Keynes wrote:

> Nethertheless the theory of output as a whole, which is what the following book purports to provide, is much more easily adapted to the conditions of a totalitarian state, than is the theory of the production and distribution of a given output produced under conditions of free competition and a large measure of laissez-faire.[19]

I'm not suggesting Keynes favours a totalitarian state, but if you happen to have one the *General Theory* will help you control the aggregate situation, this is how irrelevant micro foundations are to Keynes. Any belief in the need to allow the economy to self-adjust is swept away. No matter if you are more market orientated or totalitarian, the government's task is the same, to manage the economy to prevent any shortage of demand.

Despite the huge 'failure' of the Great Depression governments largely avoided taking control of the economy in the 1930s. Instead preparations for war, and war itself, eventually led governments to step in to maximise output in the total war of World War Two. It is likely that this ultra-control would have occurred if Keynes had written his *General Theory* or not, rather Keynes ideas fitted/could be part of the justification for, what was happening anyway. Likewise the shift in the political situation, resulting from the need to all pull together (where have we heard that emptily recently?), is the product of class relations changing through total war rather than any theoretical discovery. It is also hard to imagine how the international financial system could have been reconstructed in any other way but gradually, given the experiences of the 1930's and total war. State owned/preferred/subsidised firms were not new phenomena either. So, I would suggest, events led the general increase in control/social engineering, with Keynesian ideas being the preferred language to justify/express this change.

Intriguingly Kalecki suggested that full employment would not be sustainable in the long run, because it would in the end improve the bargaining position of the working class, causing inflation to spiral.[20] Unemployment is identified as part of the normal operation of the market economy, so to prevent a situation of significant average unemployment the government must increase its direct control over private business. Here we have some idea that the market is incompatible with persistent full

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[19] Keynes, *Collected Writings Volume VII*, op. cit., p. xxvi.

[20] M. Kalecki, 'Political Aspects of Full Employment', *Political Quarterly*, Vol. 14: No. 4 (1943), pp. 322-331.

employment, but it is the workers fault. This is not the same as Marx's argument that inherent instability results from the rational behaviour of competing capitalists, causing the profit rate to tend to fall in boom, no matter the behaviour of workers. But Marx's argument had been undermined by Sweezy's popularisation, of the idea that Marx's value theory was inconsistent.[21]

In the 1960's, with Marx 'redundant', radical economists turned to employing conventional notions of equilibrium and working in conventional physical/real terms, like Sraffa.[22] Okishio concluded that, as long as workers did not push up their real wages in physical/real terms, labour saving technological change could not reduce the profit rate.[23] Goodwin presented his 'Marxist' analysis of a permanent cycle, between boom and slump, through the effect of the level of unemployment on the bargaining position of the working class.[24] Forgetting/dismissing Marx's critical finding that the capitalist system is inherently periodically self defeating, allowed the blame for economic problems to be laid upon the workers, with the government's task being to enforce a social pact on workers i.e. to socially engineer moderation.

Inflationary stagnation in the 1970's duly discredited the effectiveness of the socially controlling Keynesian model, with business, unsurprisingly, leading the call for a renewed faith in the market to restore the economy's fortunes. But was the Keynesian agenda decisively replaced, or was it merely modified?

Relative Stagnation In A Persistently Keynesian World.

If we ignore the political rhetoric and judge economic policy by basic measures, such as the size of the state, or the extent fiscal policy is expanded in recession, not to mention the size of national debts (even before the outbreak of the current crisis), it is hard to see how advanced capitalist economies have become less Keynesian in their

[21] P.M. Sweezy, *The Theory of Capitalist Development; Principles Of Marxian Political Economy* (London: Merlin and Augustus M. Kelly, 1942).
[22] P. Sraffa, *Production of Commodities By Means of Commodities: Prelude to a Critique of Economic Theory* (Cambridge: Cambridge University Press, 1960).
[23] N. Okishio, 'Technical Changes and the Rate of Profit', *Kobe University Economic Review*, 7 (1961), pp. 86-99.

overall economic policy. Of course volumes have been spoken about the free-market, but to see anything like a free-market in action you would have to go to a 'developing' country or a former communist country in 'transition'. The role of the IMF in enforcing free-market medicine is well understood, with Greece acting as a reminder to all countries, that consider themselves to be advanced, of what would really happen if they had to become much more free-market.

Prominent radical economists argued that profitability had fallen towards the end of the Golden Age, reaching a low point in the 1970's, but then, the switch to more 'free-market' governments in the 1980's restored profitability through switching the balance of power back to capital from labour.[25] But, apparently, restored profitability failed to ignite a new strong boom. With labour weakened, radical economists pointed to the relative uncoupling of the financial system from the productive economy, as being responsible for the continued slow growth as compared to the Golden Age.[26] Brenner spoke of saturated markets,[27] Lysandrou looked to growing inequality holding back demand.[28] Then, to cap it all, the financial system appeared to simply implode on itself because it lacked the discipline/regulation of the Keynesian Golden Age. Keynesians and radicals alike found 'financialisation' to be the problem and greater government intervention in all aspects of the economy to be the solution.[29]

The remedy is of no surprise; when would Keynesians advocate less government intervention? Furthermore, the possibility of a 'progressive' remedy, limiting the cost of the crisis to citizens, is another unquestionable Keynesian 'fact'. If all this were not true, then what should radical economists campaign for? The solution *must* be a

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[24] R.M. Goodwin, 'A Growth Cycle', in C.H. Feinstein, (ed), *Capitalism and Economic Growth* (Cambridge: Cambridge University Press, 1967), pp. 54-58.
[25] P. Armstrong, A. Glyn and J. Harrison, *Capitalism since 1945* (Oxford: Blackwell, 1991), G. Duménil and D. Lévy, *Capital Resurgent* (Cambridge, MA: Harvard University Press, 2004).
[26] B. Fine, C. Lapavitsas and D. Milonakis, 'Addressing the World Economy: Two Steps Back', *Capital and Class*, No. 67(1999), pp. 47-90.
[27] R. Brenner, 'The Economics of Global Turbulence', *New Left Review*, 229 (1998).
[28] P. Lysandrou, 'The link between global inequality and global financial crisis', presented to the *European Association for Evolutionary Political Economy Annual Conference*, Amsterdam, November (2009).
[29] Typically see R. Boyer, 'Some Steps Towards a Political Economy of Financial Crisis', M. Lavoie, 'After the Crisis: Are we all Keynesians?', and G. Duménil and D. Lévy, 'The Share of Wages and the Profit Rate in the Explanation of the Current Crisis', all presented to the *Joint conference of the*

modified market system that *will* work better. I wish it was so simple, but Marx, helped by Grossmann and Kliman,[30] leads me to a very different interpretation of events.[31]

Grossmann seeks to defend Marx's prediction of a tendency for the rate of profit to fall, and to link it to the idea that crises are potential revolutionary situations. If the revolutionary situation is missed, crisis will restore profitability and boom in the end, until the situation repeats i.e. the next crisis/potentially revolutionary situation.[32] As the profit rate falls in boom, capital, meaning potential funds to productively invest, becomes surplus because the return on productive investment is insufficient to attract it to productive investment. Surplus capital finds alternative adventurous paths of investment, pouring into investment in fictitious capital (shares etc). Grossmann interprets the heightened speculation in the U.S. in the late 1920's as the precursor to a fall into crisis, correctly predicting the Great Depression.[33] Could the same scenario be repeating itself, accounting for the current crisis? But profitability had apparently recovered from the 1980's onwards, ruling out the relevance of Marx's/Grossmann's work, or so it might seem!

In debate with Laibman and Foley, Freeman and Kliman established that the Okishio theorem does not hold in the value terms that Marx had actually employed to uncover the tendency for the profit rate to fall.[34] Potts illustrates how, if we employ a

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Association for Heterodox Economics, the International Initiative for Promoting Political Economy and the French Association for Political Economics, Paris, July (2012).

[30] H. Grossmann, *The Law of Accumulation and Collapse of the Capitalist System (also a Theory of Crises)* (Leipzig: Hirschfeld, 1929), English translation, H. Grossmann, *The Law of Accumulation and Breakdown of the Capitalist System: Being also a Theory of Crises* (London: Pluto, 1992). A. Kliman, *The Persistent Fall in Profitability Underlying the Current Crisis: New Temporalist Evidence* (New York: Marxist-Humanist Initiative, 2010) and A. Kliman, *The Failure of Capitalist Production: Underlying Causes of the Great Recession* (London: Pluto, 2011).

[31] N. Potts, 'Surplus Capital: The Ultimate Cause of the Crisis?', *Critique: Journal of Socialist Theory*, Vol. 38: No. 1 (2010), pp. 35-49, and N. Potts, 'Marx and the crisis', *Capital & Class*, Vol. 35: No. 3 (2011), pp. 455-474.

[32] Note the section of Grossmann, *The Law of Accumulation and Collapse of the Capitalist System*, op. cit., which considers this political question, is not in the English translation, H. Grossmann, *The Law of Accumulation and Breakdown of the Capitalist System* (London: Pluto, 1992), but is in English in K. Lapides, 'Henryk Grossmann on Marx's Wage Theory and the 'Increasing Misery Controversy'', *History of Political Economy*, 26:2 (1994), pp. 247-266.

[33] Grossmann, *The Law of Accumulation and Breakdown of the Capitalist System*, op. cit., pp. 191-193.

[34] D. Laibman, 'Okishio and his critics: historical cost versus replacement cost', *Research In Political Economy*, 17 (1999), pp. 207-227, D. Foley, 'Response to David Laibman', *Research In Political Economy*, 17 (1999), pp. 229-233, A. Kliman, 'Sell Dear, Buy Cheap? A Reply To Laibman', *Research In Political Economy*, 17 (1999), pp. 235-240, A. Freeman, 'Between Two World Systems: A

simultaneous approach to calculating value, like Okishio, variables in terms of value behave identically to their physical measurement.[35] Simultaneous replacement cost valuation boosts profitability if there is technological change, by 'going back' and re-valuing inputs at the now lower unit value of outputs, reducing the capital advanced, the denominator of the profit rate. Alternatively, if we accept that outputs can have a different unit value to inputs, technological change, which increases the proportion of constant capital to living labour, while improving productivity and the profit rate in physical terms, will reduce the profit rate in value terms, *the unit that Marx actually worked in*.

Kliman presents a range of measures of profitability for the U.S. corporate sector, and finds that profitability, on average has failed to recover, or, dependent on the measure continued to decline, since the 1970's.[36] Persistently low profitability would explain why so much surplus capital has been invested in fictitious capital, or invested in property, or lent to the public in a usurious fashion, or exported abroad, or lent to the state.[37] Kliman explains how, from the 1970's onwards, the creation of credit and build up of government debt has prevented a decisive enough crisis to actually restore the profit rate.[38] So it could be advanced countries' governments' expansionary

Response to David Laibman', *Research In Political Economy*, 17 (1999), pp. 241-248, D. Laibman, 'The profit rate and reproduction: a rejoinder', *Research In Political Economy*, 17 (1999), pp. 249-254, A. Freeman and A. Kliman, 'Two Concepts of Value, Two Rates of Profit, Two Laws of Motion', *Research In Political Economy*, 18 (2000), pp. 243-267, D. Laibman, 'Two Of Everything: A Response', *Research In Political Economy*, 18 (2000), pp.269-278, D. Foley, 'Response to Freeman and Kliman', *Research In Political Economy*, 18 (2000), pp. 279-283, A. Freeman and A. Kliman, 'Rejoinder To Duncan Foley And David Laibman', *Research In Political Economy*, 18 (2000), pp. 285-293, D. Laibman, 'Numerology, Temporalism, And Profit Rate Trends', *Research In Political Economy*, 18 (2000), pp. 295-306.

[35] N. Potts, 'Trying to Help Rescue Value for Everyone', *Critique*, 37:2 May (2009), pp. 177-199.

[36] Kliman, *The Persistent Fall in Profitability Underlying the Current Crisis*, op. cit..

[37] A. Kliman and S. Williams, 'Why "Financialization" Hasn't Depressed U.S. Productive Investment', presented to the *Joint conference of the Association for Heterodox Economics, the International Initiative for Promoting Political Economy and the French Association for Political Economics*, Paris, July (2012), provide empirical evidence, showing for the U.S., that in fact productive investment, as a proportion of total profit, has not fallen. The lower level of productive investment is simply in line with lower profitability. While not wishing to dispute the validity of this finding, I suggest that it does not contradict the wider notion of capital being surplus because profitability is low. No matter what the source of surplus capital/funds may be (e.g. from capital flight to the U.S., or through credit creation), the essential point is that funds, from numerous sources, have been increasingly attracted to non-productive use. To put it another way, if profitability were higher then we would have expected funds from numerous possible sources to have supported a boom of productive investment, rather than just booms in fictitious capital, property, consumer debt and government debt.

[38] A. Kliman, 'Value Production and Economic Crisis: A temporal analysis', in R. Westra and A. Zuege (eds) *Value and the World Economy Today* (New York and London: Palgrave Macmillan, 2003) and Kliman, *The Failure of Capitalist Production*, op. cit..

macroeconomic policy, their very Keynesian bias, which, by limiting crises, has led to persistently low profitability and persistently slow growth. This is a very worrying conclusion to all that seek stability within capitalism, but Marx's point is that, because capitalism is inherently flawed, and hence unreformable, it is a system we must transcend from to actually achieve the stability we desire.[39]

Conclusion.

Economists, as the high priests of capitalism, must never develop a theory that presents capitalism as an inherently flawed, and thus unreformable, system. So, despite events since Marx's death providing amble evidence of the tendencies he identified - towards concentration, growing inequality and inherent instability - Marx's economic analysis is beyond the pale. Generally students will not be taught Marx's economics, and anyway even the few at university who try to study Marx's economics are still likely to be taught that Marx's value theory is inconsistent and in need of correction. In contrast teaching Keynes is fine, particularly in times of crisis, not because of the vigour of his analysis, but because of the acceptability of his policy prescriptions to all whom can not imagine an alternative to capitalism.

[39] And to give us a chance of stabilising the climate/saving the environment, see N. Potts, 'The Missing C That Threatens To Flood Us All', *International Journal of Social Economics*, 38:3 (2011), pp. 273-290.