The Limits of Keynesianism: Some Theoretical Observations

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The history of advanced capitalism is the history of a state-buttressed, state-controlled and state-regulated capitalism. For this reason, it is no longer possible to speak of vital areas and processes which fall outside of this near pervasive blanket of state intervention.

When seen in context, the expansion of the state sector and of state interventionism in general form part of a larger dynamic at work in the advanced capitalist economies. The growth of the service and repair sectors, the proliferation of intermediary functions, the emergence of a complex network of advertising and marketing, the establishment of a growing research sector, the extension of consumer credit - all of these developments and others reflect the increasing technical socialization of the labour process as well as the increasing complexity of the sphere of commodity circulation. All in all, advanced capitalism faces growing difficulties in its attempts to realize value (Mandel, 1978: 401-3).

The expansion of the state sector has absorbed much of the growth in some of these areas. Together with the emergence of state planning and of extensive state involvement in the socialization of private sector costs and risks, this overall expansion can be seen as an attempt, by the state, to assist capital in the transcendence of those barriers it finds in its path. In other words, the state attempts to secure the social existence of capital through the mobilization of counter-tendencies to capitalist crisis.

Thus, despite changes in the nature of capitalism and changes in the nature of state activity, the specific modes of intervention still reflect the attempt to meet certain form-specific needs associated with the maintenance of the capitalist order. Generally speaking,

> There is an inherent trend under late capitalism for the State to incorporate an ever greater number of productive and reproductive sectors into the 'general conditions of production' which it finances (Mandel, 1978: 484).

The origins of the modern interventionist state can be traced back to the immediate postwar period. The immediate problem facing capital and the state was one of conversion to a peacetime economy. It had taken a world war to lift international capitalism out of a decade of stagnation and unemployment, during which the social and political cohesion of the capitalist order faced serious challenge. Experiences gained in managing a wartime economy had demonstrated the potential inherent in state intervention, i.e. the ability of the state to virtually end unemployment and to set the economy back on the course of expansion and growth. Clearly, the lessons derived from these experiences were not lost on capital and the state. The conversion to a peacetime economy could not involve a return to the disruptive boom-bust cycle of earlier times. A dismantling of the war machine could not lead to the threat of a sudden contraction of business activity. The best that might be hoped for was some sort of balance between private sector activity and public sector intervention, a balance that could assure those conditions necessary for continued capital investment and economic growth.

These considerations demonstrate that the growth of state interventionism is not something that can be observed and analysed apart from an analysis of the balance of forces in the class struggle. The state's conversion to a program of fiscal and monetary management (of which commitment to a policy of full employment is but one aspect) was itself a reflection of the need to deflect working class opposition away from any radical alternative. Steps taken in the construction of the welfare state symbolize the effort by the state to integrate labour into a postwar 'settlement' or consensus, something essential for the maintenance of relative stability and class harmony and for the attainment of economic growth. Certain aspects of the welfare state can even be seen as tactical victories for the working class and its organizations, as instances where the working class has been able to "impose its political will on the logic of capital within capitalist relations" (Altvater, 1976: 3). All of these factors suggest that the actual character of state intervention is something largely dependent upon the nature of the class struggle and its outcome (i.e. 'the relative contingency of the political process').

Keynesian economics represents an attempt to guide and theorize the practice of state fiscal and monetary intervention in the advanced capitalist economies.[1] To Keynes, the laissez-faire liberal image of the state (i.e. the best state is that which governs least) was hopelessly inadequate in the face of chronic economic stagnation and massive unemployment. Classical economy had erred in assuming that the capitalist market was an inherently self-correcting mechanism and that any prolonged imbalance between supply and demand, producing unemployment or idle capacity, was impossible. In the Keynesian system, the central postulate was that market equilibrium was possible at any level of employment, the latter being dependent upon the volume of effective demand. Full employment is, therefore, not something towards which an economy will naturally tend. It is, rather an "optimum relationship" to be produced only by either "accident or design" (Keynes, 1965: 28). The unimpeded interaction of market forces is something just as likely to produce stagnation as prosperity, a colossal wastage of resources instead of their efficient employment. Thus, the ostensible object of government policy was the attainment of full employment via a policy of selective state intervention. The short term manipulation of key economic variables by the state is what is termed economic 'fine-tuning', a practice designed to level out the disruptive boom-bust cycle of capitalism and to attain a state of permanent 'quasi-boom'.

In the Keynesian system, a given rate of investment and a given 'propensity to consume'[2] will together bring forth an actual volume of effective demand which, in turn, will determine a definite level of employment consistent with economic equilibrium. When effective demand, the sum of the demand for capital and consumption goods, is equal to a nation's total income (i.e. total savings = total investments), the economic system will operate at a full employment equilibrium. If effective demand falters, then savings will exceed investments, total income will drop and unemployment will result. In setting forth this model, Keynes was explicitly ressurecting the "great puzzle of effective demand" which, with Ricardo, had vanished from the realm of orthodox economic theory to lead a subterranean existence in the underworlds of Gesell, Douglas and Marx (Keynes, 1965: 32). And in doing so, Keynes was concentrating his attack upon Say's Law, the idea of a self-equilibrating market. The mere fact that savings and investments may be defined the same way (as the excess of income over consumption) does not necessarily mean that the two will always tend to coincide in actual practice (Keynes, 1965: 63, 83-4). The factors which determine the former are distinct and separate from those influencing the latter. In the final analysis, the nature of the equilibrium will depend upon the level of aggregate effective demand.

In a mature capitalist economy, Keynes felt there were valid reasons for suspecting that the level of effective demand would be insufficient to produce equilibrium at full employment. Increased income will augment consumption but not by so much as the initial increase in income. Keynes, (1965: 27) attributed this to the psychological propensity to consume consequent upon the increase in material affluence. Therefore to increase and justify increased employment,

> there must be an amount of current investment sufficient to absorb the excess of total output over what the community chooses to consume when employment is at the given level. For unless there is this amount of investment, the receipts of the entrepreneurs will be less than is required to induce them to offer the given amount of employment (Keynes, 1965: 27).

Thus, the question of investment was central to the Keynesian model. The health of a mature capitalist economy depends upon the maintenance of an appropriate level of capital investment. Acceptance of this principle leads, in Keynes' mind,

> to the same conclusion as before, namely, that employment can only increase pari passu with an

> increase in investment; unless, indeed, there is a change in the propensity to consume (1965: 98).

However, as with consumption, a mature capitalist economy tended to throw up barriers to the productive investment of capital which served to weaken the incentive to invest on the part of the individual capitalist (i.e. the saturation of investment outlets, the declining marginal efficiency of capital etc.). Additional factors such as the prevailing 'business mood' and the cost of borrowing might induce an investment strike as capital exercises a 'liquidity preference'. All in all, these factors held out the distinct possibility of a secular tendency to stagnation as the incentive to private investment weakened.

The object of state policy, given these factors, was to ensure the attainment of a full employment equilibrium through the use of fiscal and monetary devices designed to strengthen both the incentive to invest as well as the society's 'propensity to consume'. Here, the overriding importance of investment was clear. As David Horowitz states (1973: 92),

> By stressing the pre-eminent significance of the investment decision, in determining the level of output and employment, and by illuminating the dependence of that decision on the expectation of investors, Keynes provided the key to a theory of fiscal politics which would show that the pattern of government spending must fall predominantly within the channels coincident with business interest.

Keynes was enough of a realist to know that any state authority that failed to provide the necessary framework for business expansion would soon find the economy in the throes of a major depression. Indeed, it was the duty of the state to ensure that investment and accumulation materialized, even despite what might be the temporary whims of capital. Keynes writes:

> It is not the ownership of the instruments of production which it is important for the state

> to assume. If the state is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them, it will have accomplished all that is necessary. Moreover, the necessary measures of socialization can be introduced gradually and without a break in the general traditions of society (1965: 378).

The object is therefore one of saving capitalism and for this reason it is completely erroneous to view Keynes as a socialist. In the words of Maurice Dobb,

> despite an inclination épater les bourgeois and to patronize heretics, he went no further than the position of an interventist liberal, alive to the needs of his time (1977: 220).

In practical terms, Keynesian fiscal and monetary policy aims at the stimulation of both investment and consumption. "For it is unlikely," Keynes writes,

> that full employment can be maintained, whatever we may do about investment, with the existing propensity to consume. There is room, therefore, for both policies to operate together; - to promote investment and, at the same time, to promote consumption... I should readily concede that the wisest course is to advance on both fronts at once (1965: 325).

To this end, the state should attune its monetary policy (lower interest rates, a flexible money supply) and its fiscal policy (taxation, subsidization, welfare spending etc.) in the attempt to surmount the overall deficiencies in the level of effective demand.

Keynes' approach to the problems of capital accumulation, with its emphasis upon the key variable, effective demand, is indicative of a highly abstract and ahistorical conceptualization of the nature of production founded upon capital. In general, the aggregates and categories used by Keynes posit the essence of capitalist production as production for use and consumption, and not as production for value. "Capital", writes Keynes, "is not a self-subsistent entity existing apart from consumption" (Keynes, 1965: 106). Consumption must be seen as the object and purpose of all economic activity (Mattick, 1974: 11). The implications of this approach are far reaching in a number of areas.

To take a concrete example, the Keynesian concept of 'national income' (i.e. consumption + investment) establishes a separation between its two major components only to blur the distinction by evaluating the significance of these components primarily in terms of their impact upon the level of effective demand. Shigeto Tsuru (1968: 194) writes,

> The result is the Keynesian concept of national income which has only one dimension, that of being <u>consumable sooner or later</u>. The part which is consumed during a given period is called 'consumption', and the remainder in whatever physical form it may be, is called 'investment'.

Tsuru goes on to demonstrate that a methodology based upon what is essentially crude aggregation cannot accurately gauge what he terms the 'productivity effect' of consumption and investment, or the actual significance of consumption expenditure and investment outlays vis-a-vis the accumulation of capital.

Paul Mattick (1974: 116) develops a similar point in greater detail in his discussion of the role of the 'multiplier' within the Keynesian system. Given the existence of idle capacity and unemployed workers during a depression, state expenditures are seen as 'pump priming' devices that stimulate a resumption of private sector business activity. An initial expenditure in the area of public works or welfare assistance initiates a chain reaction of subsequent expenditures (the precise quantitative dimensions of which depend upon the society's marginal propensity to consume), thereby multiplying the cumulative impact of the initial outlay. Given this process, state expenditure might well be seen as a panacea whose curative powers are sufficient to overcome the shortfall in effective demand.

However, as Mattick points out, there are serious problems inherent in the multiplier concept, which, in the final analysis, are rooted in the nature of state intervention and state spending within a capitalist economy. Firstly,

> the multiplier concept creates the illusion... that any given amount of additional income can multiply itself merely by travelling from one group to another. Actually, of course, this is not so, just as a change in the velocity of money does not imply a change in its quantity or in the quantity of commodities in circulation (Mattick, 1974: 158).

He adds that it is only when money spent in consumption finds its way into productive investment that any real increase in income takes place.

Secondly, a problem emerges because the state is not a capitalist and must therefore finance its activities out of revenue in the form of taxes, or out of borrowing. Whereas the private sector is involved in the direct creation of surplus value, direct state involvement in production is usually confined to a series of non-productive enclaves vital for the economy as a whole but unprofitable for private investment and exploitation. For this reason, almost all forms of state expenditure must be seen as forms of consumption of surplus value within the context of the capitalist system as a whole. Even in the case of government contracts with the private sector, the costs associated with this kind of induced production as well as the profits that accrue to the private suppliers must be financed out of taxes on the private productive base or out of borrowings against the future profitability of that same base (Mattick, 1974: 118). In either case the state appropriates a portion of the surplus value generated in the private sector and for this reason alone state finance must be labelled unproductive from the standpoint of the whole system (Yaffe, 1973: 51).

The multiplier effect of state spending is therefore largely illusory, despite the fact that the stimulus of government spending may help arrest a downward trend in business activity. Mattick (1974: 159) notes that as state spending may ease unemployment and increase production in the private sector,

> it may under special conditions, induce an acceleration of private investments. If this should be the case, it would increase total income by more than that brought forth by deficit-spending, but this 'multiplication' would be due directly to the additional profitable investments, not to the initial spending.

In the case of deficit spending, the overall complex of capitalist valorization problems find their expression in the cumulative growth of the national debt. Attempts to rationalize this indebtedness usually rest upon the claim that a rising national income will offset the problems associated with increased borrowing and debt servicing. It is, however, impossible to gauge the stimulative impact of deficit financing if comparisons are made on the basis of total national income. As Mattick states,

> the growing national debt cannot be related to total national income, but only to that part of the total which has not been injected into the economy by the government. It is by counting an <u>expense</u> as an <u>income</u> that the illusion arises that the growing national debt is neutralized by a rising national income (1974: 162).

The upshot of this analysis may be summed up as follows. State spending can only be viewed as a consumption of surplus value, or better, a redistributive appropriation and consumption of surplus value with an aim to establish and maintain certain, historically-specific 'general material conditions of production' in the era of advanced capitalism. This expenditure cannot be viewed simply as one vital input amidst a complex of socially-necessary tasks and functions which together constitute the system of production based upon capital.[3] A perspective like this tends to abstract the technical aspects of an advanced division of labour away from the social relations which constitute capitalist production as a valorization process, and, in doing so, it loses sight of the fact that only labour undertaken within the capital relation can be productive of surplus value. The result is an analysis which downplays the limits of state intervention, which, ultimately, stem from the fact that the state is not a capitalist and that the state must therefore appropriate and consume surplus value in the course of its interventions. Given this understanding, state expenditure and state intervention can best be seen as "indirectly productive for capital in the sense used by Marx" - they constitute essential moments apart from capital which, nonetheless, make a vital contribution to the social conditions of capitalist reproduction (Fine and Harris, 1976: 104-5).

The limits of contemporary state intervention inhere in the very nature of the form-specific functions the state is called upon to provide within the context of advanced capitalism. The use of fiscal and monetary devices to attenuate the business cycle and prevent the re-emergence of dangerously high levels of unemployment has served to displace the locus of contradiction and crisis to the level of the state itself. The cumulative growth of public debt, the mounting burden of debt servicing and the bias of permanent inflation together represent the price paid by 'capital in general' for the maintenance of state-buttressed 'prosperity' amidst conditions of declining profitability in vital sectors and growing difficulties in the sphere of commodity circulation. State intervention in the form of 'demand management' and an expanded money supply has served to arrest the necessary destruction of excess capitals in the economic crisis and to hinder the concentration and re-organization of the capital structure necessary for a profitable upswing in business activity (Itoh, 1978: 6-7). The use of credit leverage and deficit financing to further this end has led to the current phenomenon of 'stagflation', a steady and seemingly inexorable rise in the cost of living amidst either sluggish or non-existent growth rates. All in all, capital in crisis stands in need of a depression, a 'shake-out' that the state dare not risk in view of its likely social and political consequences. The current strategy of Keynesian intervention, based as it is upon the use of fiscal and monetary means for the redistribution of existing values, cannot penetrate to the heart of the matter for, as Fine and Harris note, "the dominant recuperative force in crisis is the re-organization of capital and not the redistribution of values" (1976: 111).

Given this situation, the efficacy of the Keynesian devices is severely limited by the expansion of state debt on one side, and the risk of refuelling inflation without any substantial improvement in business activity, on the other (Itoh, 1978: 9). The growing obsolescence of Keynesianism is reflected in the fact that

> The current high level of unemployment does not basically result from the needs of distributional struggle (although this plays a secondary related role), but from the need for a break in the circuit of capital to release money, means of production and labour-power so that they can, at a later stage of the cycle, when the expansion capital's circuit is renewed, be re-employed in a circuit based on a re-structuring of productive capital (Fine and Harris, 1976: 112).

In the meantime, the crisis of a state-buttressed capitalism increasingly manifests itself in a crisis of state finance. The stage is thus set for a round of spending cuts, as the state attempts to 'rationalize' its spending and taxation priorities to suit the valorization needs of capital (O'Connor, 1973). In the long run, the continued existence of the welfare state, as it is currently known, is placed in serious jeopardy.

The current crisis of capital, the fiscal crisis of the state and the growing impotence of Keynesian economics all point in the final analysis to the dynamic, yet crisis-ridden course of capitalist development. State intervention, as the continuous and ongoing management of vital economic processes, emerged in a particular conjuncture in response to particular social and economic pressures. For a certain specified period, the efficacy of this intervention was clearly seen and hence unquestioned. Yet, the crisis of the 1970's demonstrates that a state-managed and state-regulated capitalism is still capitalism, still subject to the inner laws of motion that characterize capitalist production, and still subject to the barriers and limits that inhere in the form of capital itself.

For this reason, the growing obsolescence of the Keynesian prescription can best be seen as reflecting the transition of the capitalist mode of production to a higher phase of development which, in turn, will posit the form-specific functions of the state in a new and qualitatively different manner. Whatever the change in state form and function, it must, nevertheless, remain consistent with the form of capital itself and the immanent necessities posited by this form. All in all, the state must always face up to the need of securing the political and social domination of capital and, in doing so, secure the social exsitence of capital itself.

Conclusion: Post-Keynesianism?

In a Wall Street Journal story, dated September 6, 1974, the following statement is attributed to Robert Gordon, then president of the American Economic Association:

> under Keynes' influence, we've developed a theory of aggregate demand but haven't even started to develop a theory of aggregate supply (quoted in Morris, 1974: 3)

In its own way, an admission like this one reflects a growing feeling that Keynesian economics, and modern economic theory in general, does not provide adequate insight into basic problems regarding capital accumulation and production, problems made more acute with the current economic crisis.

Current state intervention and emerging future trends in this area also reflect this. Given the predicament of 'stagflation', the atmosphere is ripe for the state to undertake new departures in setting the economy back on track, departures that push state intervention beyond the ambit of traditional Keynesian practice. Massive cutbacks in health, education and social services, inroads into the collective bargaining process and controls on wage increases all mark the arrival of a new phase of state intervention. The precise nature and direction of this new phase is hard to determine as of yet, but it will likely involve efforts to redistribute income away from working-class consumption, to co-opt organized labour into surrendering gains made over decades of struggle and to mobilize state funds in the attempt to remove the structural barriers to sustained capital accumulation. An image of the future that lies in store for the western world might be drawn from an article in the October, 1974 issue of _Business Week_. In discussing the problems and imperatives facing American capitalism, the author reaches the following matter-of-fact conclusion:

> Some people will obviously have to do with less... Indeed, cities and states, the home mortgage market, small business and the consumer will all get less than they want because the basic health of the U.S. is based on the basic health of its corporations and banks: the biggest borrowers and the biggest lenders (quoted in Sweezy and Magdoff, 1975: 2).

NOTES

1. There are basic problems involved in simply equating state interventionism with Keynesianism. As has been stated, much of what came to constitute the Keynesian prescription in practice dates back at least as far as World War I and, in addition, certain aspects of modern state practice cannot be traced back to Keynes. In spite of this, Keynesianism does represent a general theorization of state intervention in advanced capitalism. It is with this general connexion in mind that this paper is based upon the admittedly rather loose and simplistic identification of the two entities.

2. Keynes (1965: 8-10) defines 'propensity to consume' as the ensemble of subjective and objective factors that guide the consumption habits and the decision whether to spend or save of individuals and classes.

3. Ian Gough (1975) argues that it is wrong to see state spending as non-productive for this reason.

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