

Post-Keynesian and Marxian
Approaches to Economic Policy:
Can Global Capitalism be Tamed?

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The Karwowski quiz

Answers are: yes, no, unsure unless otherwise noted.

1. Capitalism as a system is bound to fail eventually.
2. Climate change, if unchecked by mitigation, will lead sooner or later to the collapse of human civilization.

[If you answered 'yes' to 1. *and* 2., answer question 3.:]

3. Select: (A) Climate change (global warming) will induce world-wide catastrophe before capitalism fails; *or*
(B) Capitalism will fail before unmitigated climate change destroys human civilization.
4. Adaptation can help humanity survive climate change.

Map

1. Theories of economic policy are theories of capitalism and state power
2. Post-war trajectories: from Keynesian capitalism to instability and crises
3. Marxian/Kaleckian policy responses to crisis
4. Keynesian policy responses to crisis
5. Are Marxian and Keynesian views consistent?
6. Four challenges for radical change

1. Theories of economic policy are theories of capitalism and state power

- At the bottom of the divide between orthodoxy and heterodoxy in economic thought is the nature (o)/nurture (h) debate: Does society create the human or does the human create society?
- This tension exists in the realm of policy debate
 - From a heterodox view, social structures frame individual outcomes. So changing the frame – who provides and how, who owns and who receives – is the key to improving on pre-existing states of “society.”
 - From a neoclassical viewpoint, economic preferences arise outside of society – they are individual. So market arrangements *should* permit these individual preferences to be satisfied: Economic policy should correct distortions.

1. Theories of economic policy are theories of capitalism and state power

- The challenge: Capitalism sets in motion a community-destroying, self-expanding logic, in which owners exploit workers and expropriate the social surplus. Access to income and resources depends on market supply and demand – these are disconnected, unstable, operating on a cash-flow rather than human-need basis.
- The counterforce(s): The state, or the community.
- *Polanyi*: No stable resolution – the “double movement.”
- *Popper/Friedman*: Force competition through markets.
- *Stalin*: Eliminate markets, centralize control over allocation.
- *Keynesian*: State capacity can “defang” (tame) markets. Social conflict is distributional, and can be moderated by reducing risk
- *Kaleckian*: Up to a point. What if capital doesn’t ‘stay in place’ (strikes); what if people don’t stay in place (migrate/flee)

1. Theories of economic policy are theories of capitalism and state power

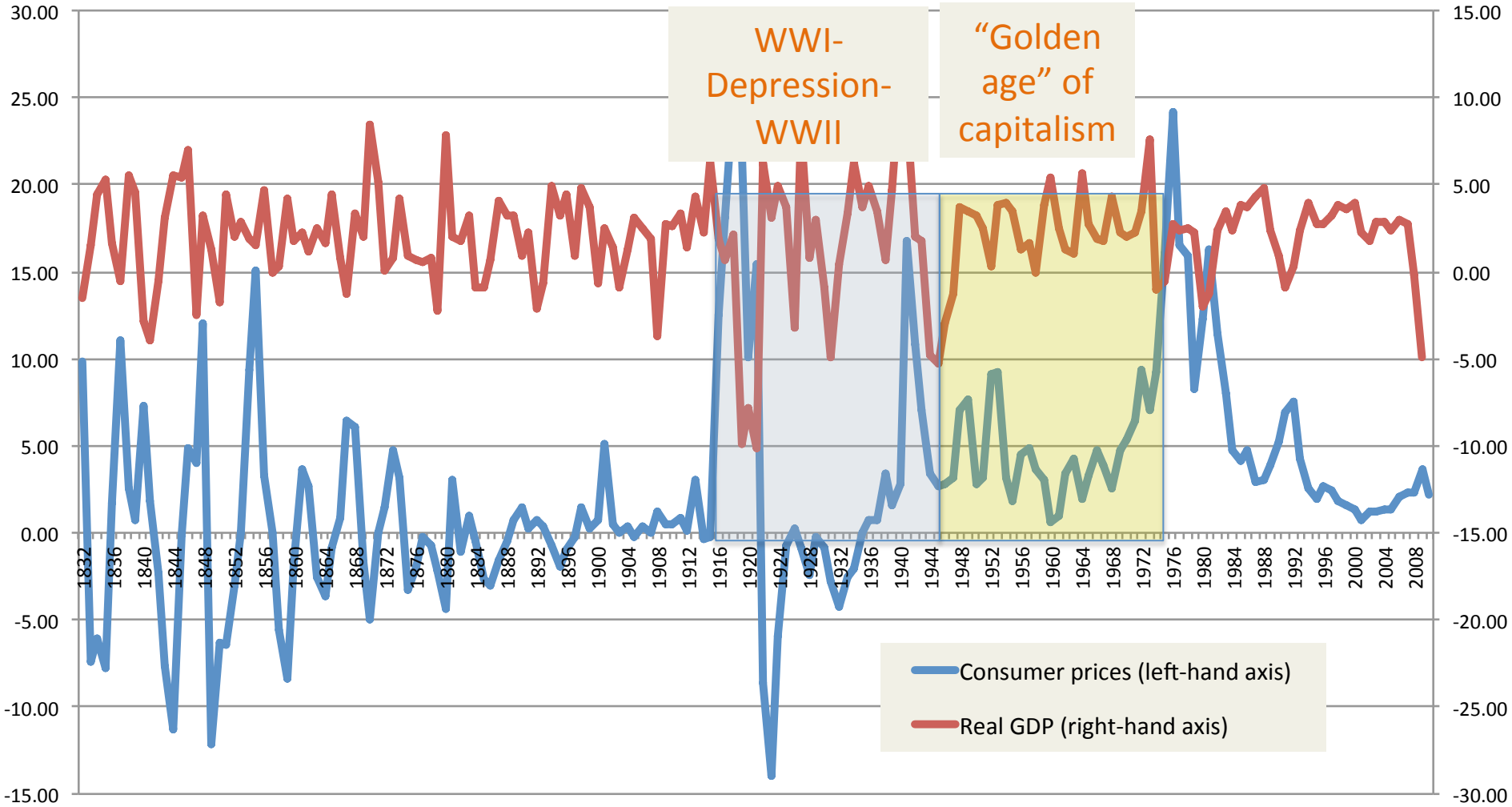
- *State power*: How much control does any national state need to create a world of “things as they should be”?
 1. Lender of last resort control over currency
 2. Discretionary fiscal policy: borrow now, repay later?
 3. Flows of capital and credit across its borders?
 4. Ability to set wages, working conditions at fair levels?
 5. Protection of infant industries?
 6. Environmental quality controls?
- What are the consequence if a state cedes macro control(s) (1-3) to a higher power? If it cedes micro controls (4-6)?

2. Post-war trajectories: from Keynesian capitalism to instability and crises

OECD countries:

- After world war devastation, established “safety-net” policies - “social Europe,” “capital/labor accords”
- US dollar & military hegemony established, UK’s global empire dismantled, US/Soviet competition on the global chequerboard.
- “Keynesian macro policies” – demand management plus pattern bargaining; a “solved political problem”
- Slow destabilization of the Bretton Woods system May 1968 – Eurocommunism, demand for worker “voice”

Price inflation and Real GDP growth (annual % change), UK,
1831-2009 (Bank of England)



2. Historical trajectories: from stable Keynesian capitalism to instability and crises

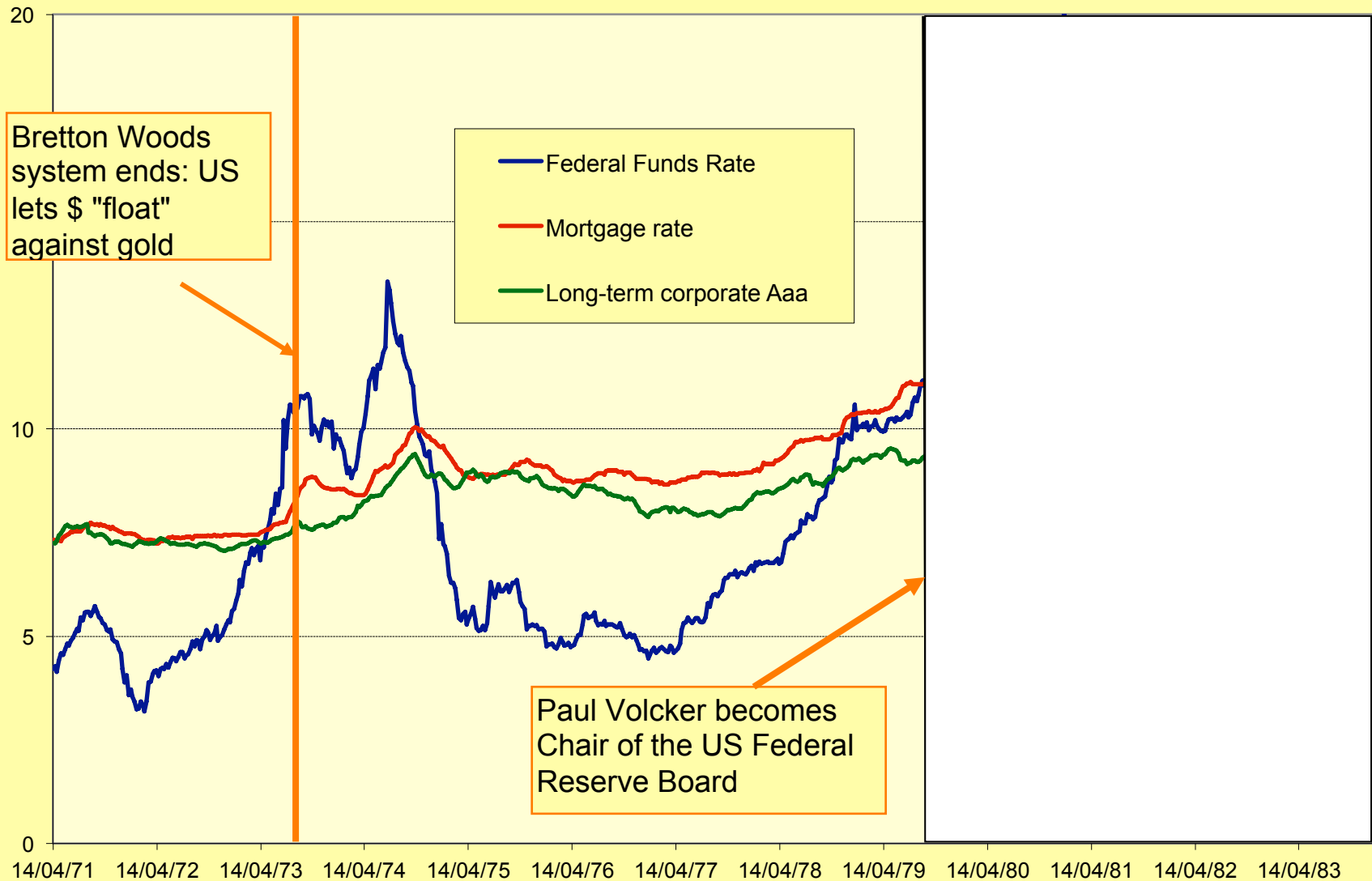
OECD countries: From Okun's *Equality and Efficiency: The Big Tradeoff* to oil shock, stagflation, unleashed macro rivalry

- 1971 & 1973: End of US\$/gold convertibility, fixed exchange rates
- 1973-74, 1978: Oil embargos, oil-price surges
- “Stagflation” – 1977-1982 (price inflation+ recession)
- Suppression of workers after Thatcher, Reagan elections (1981-US air-traffic controllers strike; 1982-UK mineworkers' strike)

Developing countries:

- Commodities boom, overseas lending, debt crises, market opening, vulnerability to speculative cycles, discipline by global financial markets

Selected US Interest Rates, 1971-1979

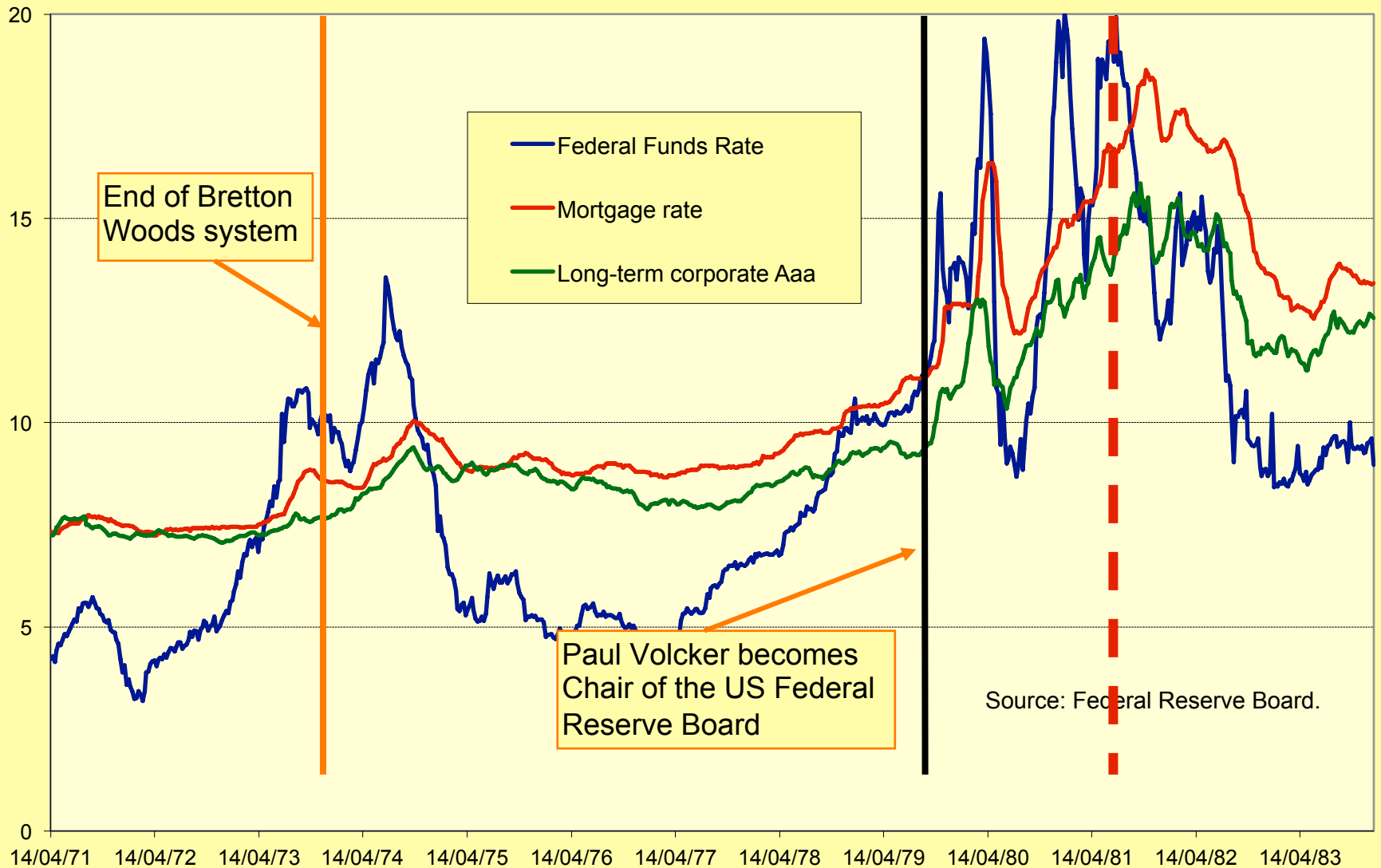


Volcker's Winter 1979 essay in the NY Federal Reserve *Economic Review*, "*The Political Economy of the Dollar*," indicated his plans. He wrote:

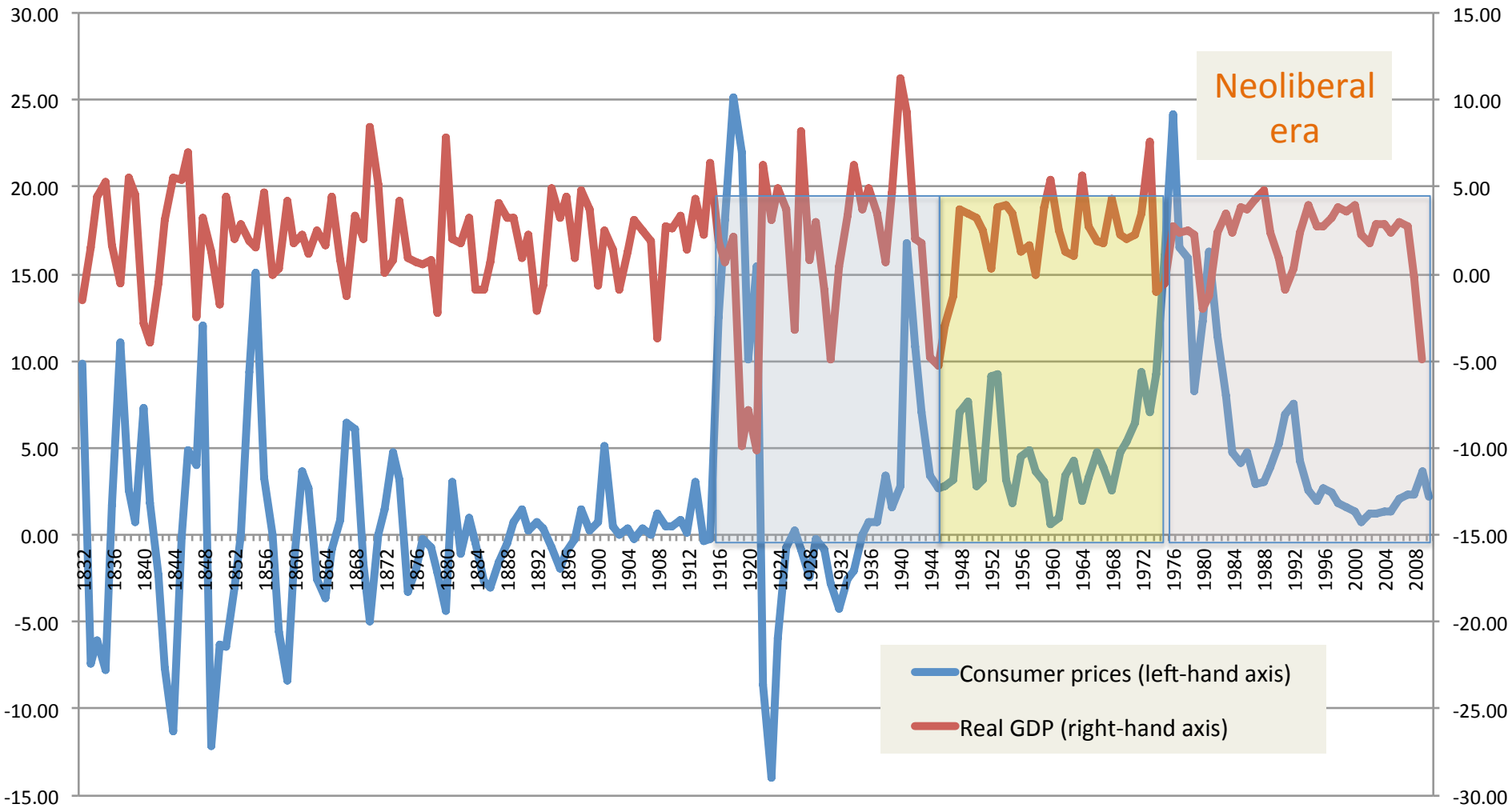
"It is tempting to look at the market as an impartial arbiter .. But balancing the requirements of a stable international system against the desirability of retaining freedom of action for national policy, a number of countries, including the U.S., opted for the latter."

... "a controlled disintegration in the world economy is a legitimate objective for the 1980s."

Selected US Interest Rates, 1971-1984



Price inflation and Real GDP growth (annual % change), UK,
1831-2009 (Bank of England)

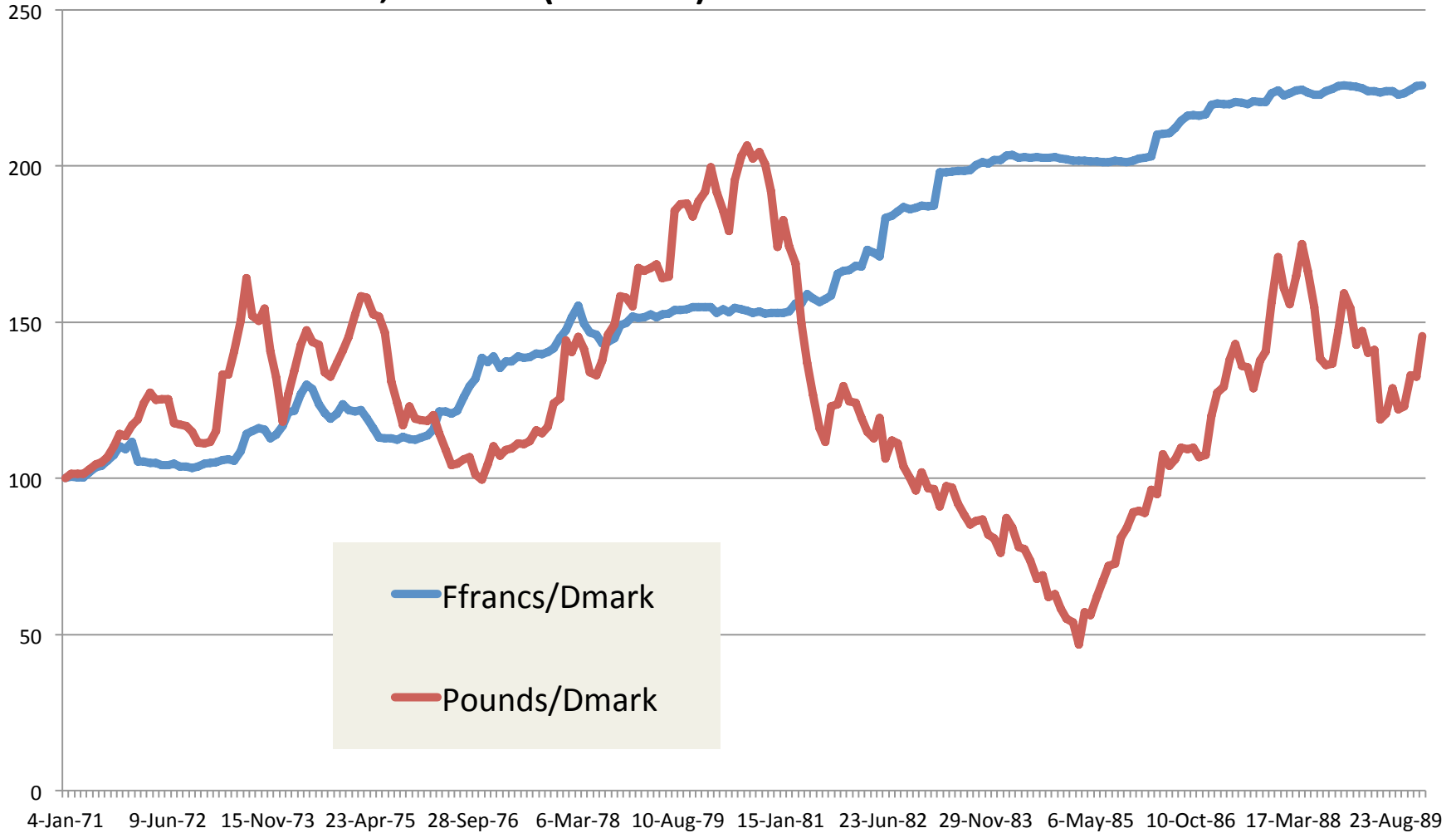


2. Historical trajectories: from Keynesian capitalism to instability and crises

Europe's dilemmas (1/2)

- Treaty of Paris, 1951: European Coal and Steel Community
- The Treaty of Rome, 1957, created the European Economic Community (“Common Market”), which established common price levels for agricultural products in 1962.
- After Bretton Woods, European nations faced a dilemma. The era of the overvalued dollar was ended; and amidst inflationary pressure, the door was opened to currency competition/ economic-coordination problems amongst European nations.
- The problem of maintaining stable exchange rates amongst the European nations remained problematic. Germany always pulling ahead, Britain always protecting its financial centre.

Selected European Currencies vs. their 1971 levels relative to the US Dollar, 1971-89 (Nominal) Source: Federal Reserve Board



2. Historical trajectories: from Keynesian capitalism to instability and crises

Europe's dilemmas (2/2)

- Europe face “eurosclerosis” (1980s). Delors Commission (1985) proposed Single European Market, established in 1993.
 - It proposed the Maastricht treaty, signed in 1992, which established the pillars of a European Union: cooperation in foreign policy, macroeconomic convergence [Price inflation: within 1.5 % of 3 best economies; public deficit $\leq 3\%$ of GDP; 60% govt debt to GDP], common currency.
- EU solution: Empower the “State” to compete in the (global) “Market”; diminish the (national) state without an internal recycling mechanism.

International Financial Integration

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graph TD; A[International Financial Integration] --> B[Global finance in charge]; A --> C[Indirect Channels]; B --> D[Direct Channels]; C --> E[Higher Economic Growth]; D --> E;
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Global finance in charge

Direct Channels

- *Augmentation of domestic savings*
- *Lower cost of capital due to better risk allocation*
- *Transfer of technology*
- *Development of financial sector*

Indirect Channels

- *Promotion of specialization*
- *Inducement for better policies*
- *Enhancement of capital inflows by signaling better policies*

Higher Economic Growth

Figure 1. Measures of Financial Integration

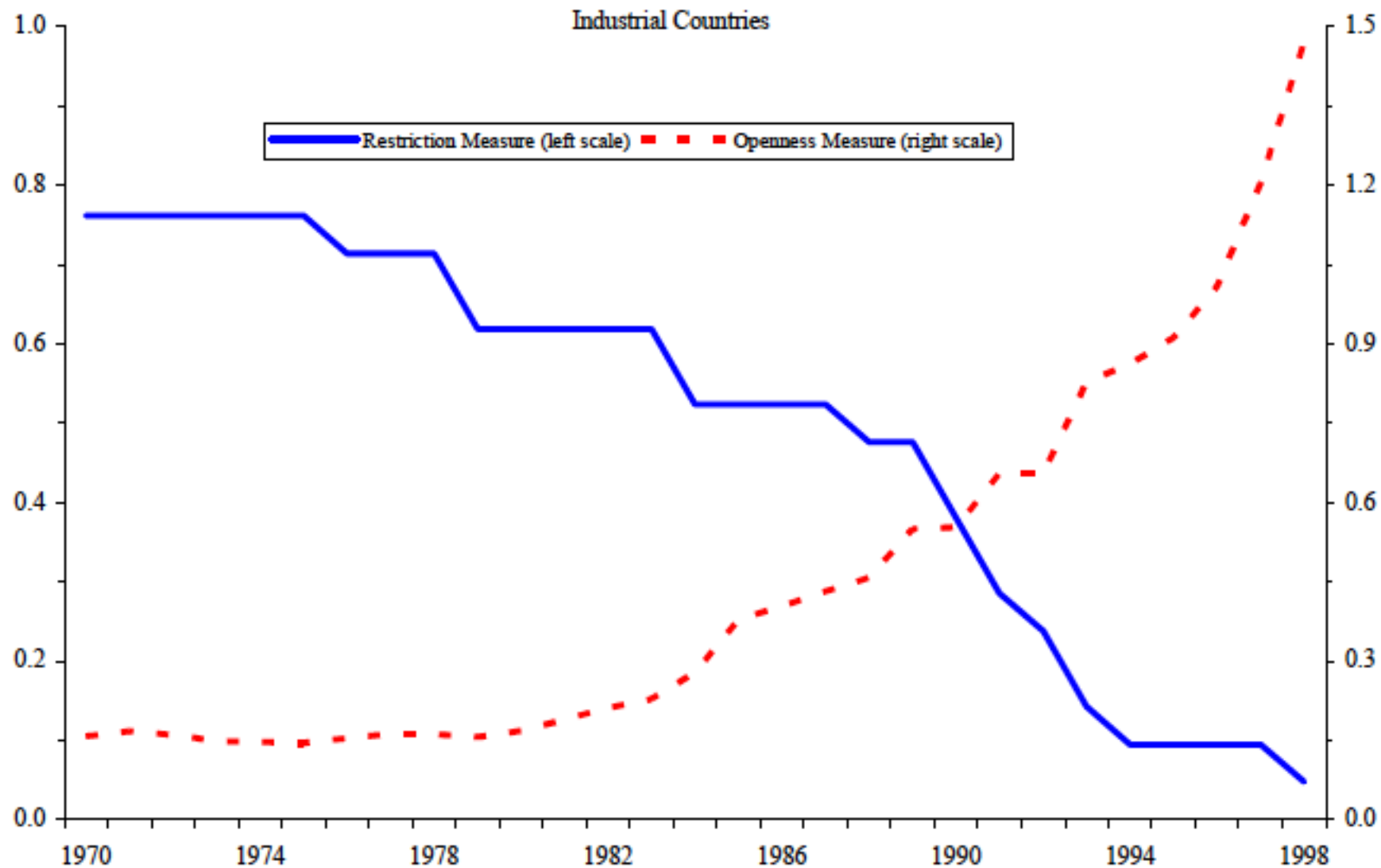
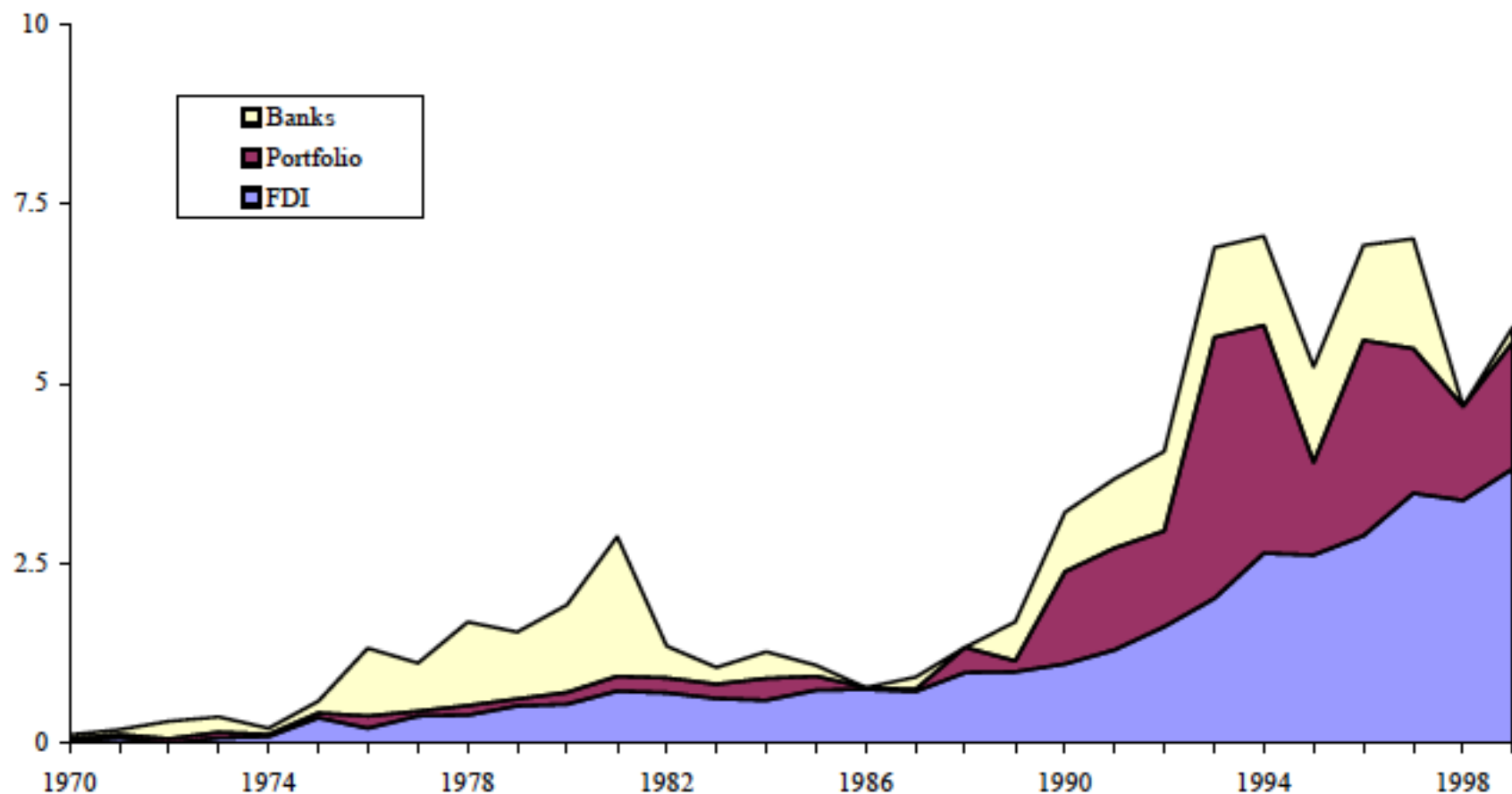


Figure 2. Gross Capital Flows
(Percent of GDP)

More Financially Integrated Economies



Less Financially Integrated Economies

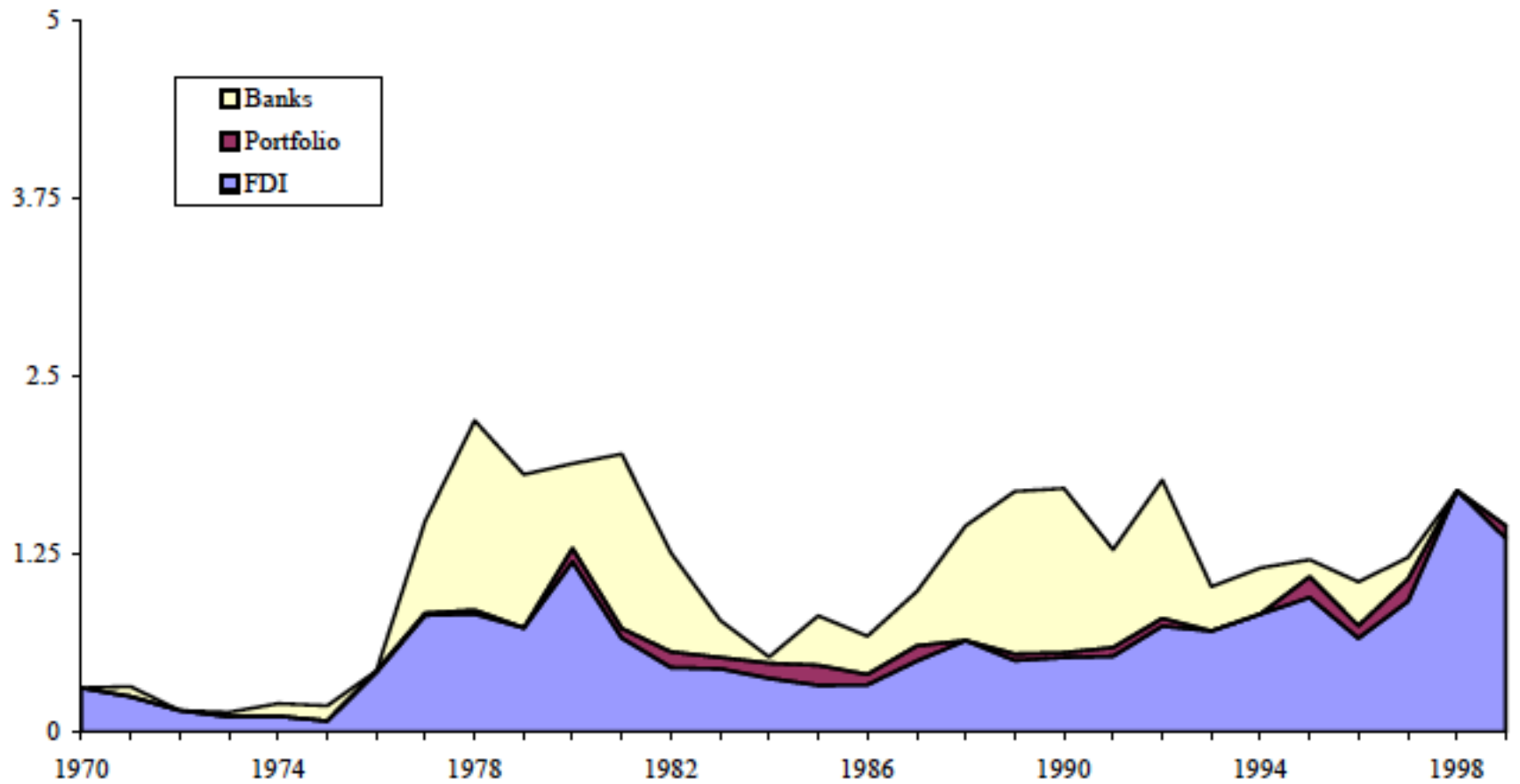
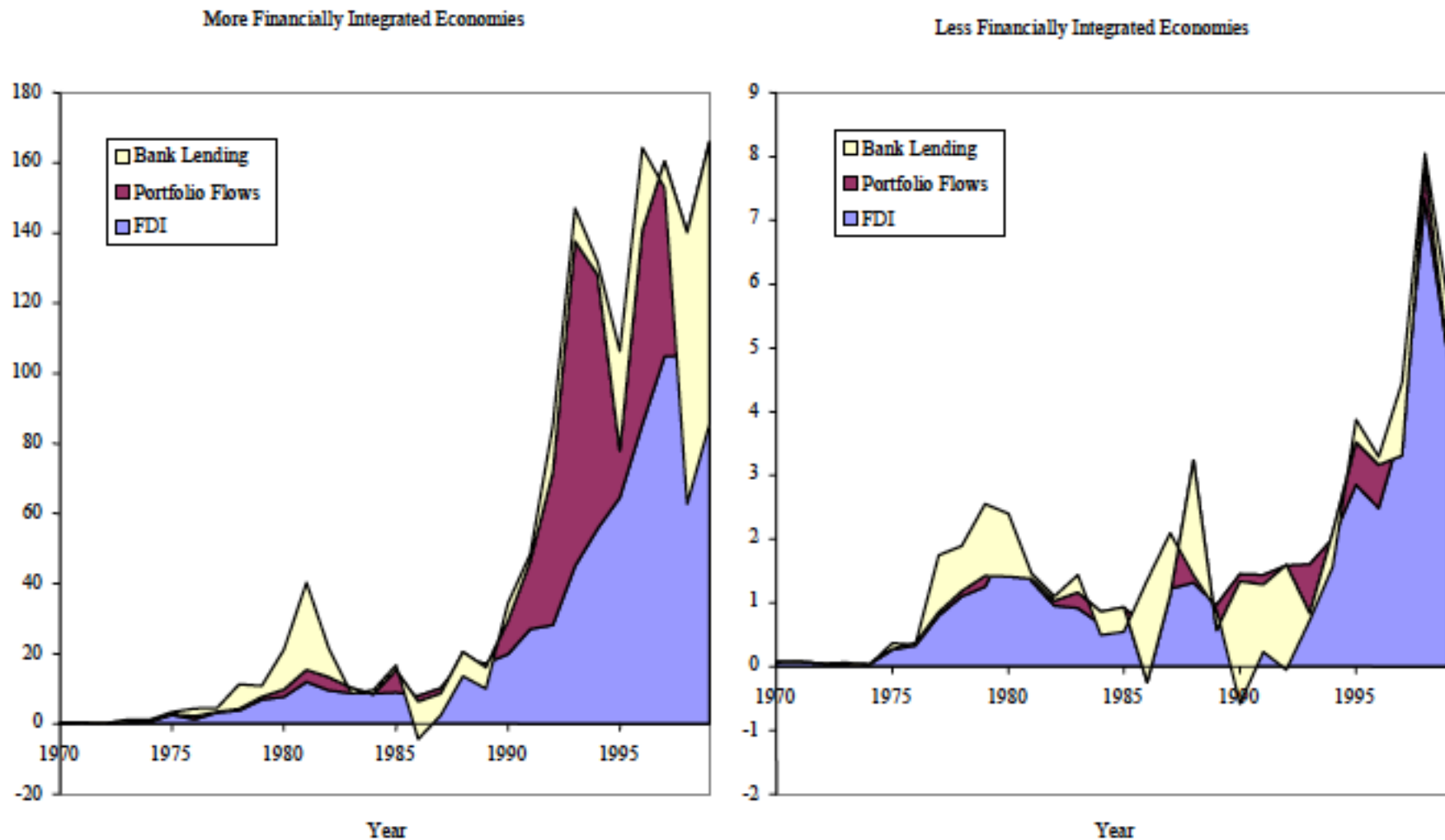
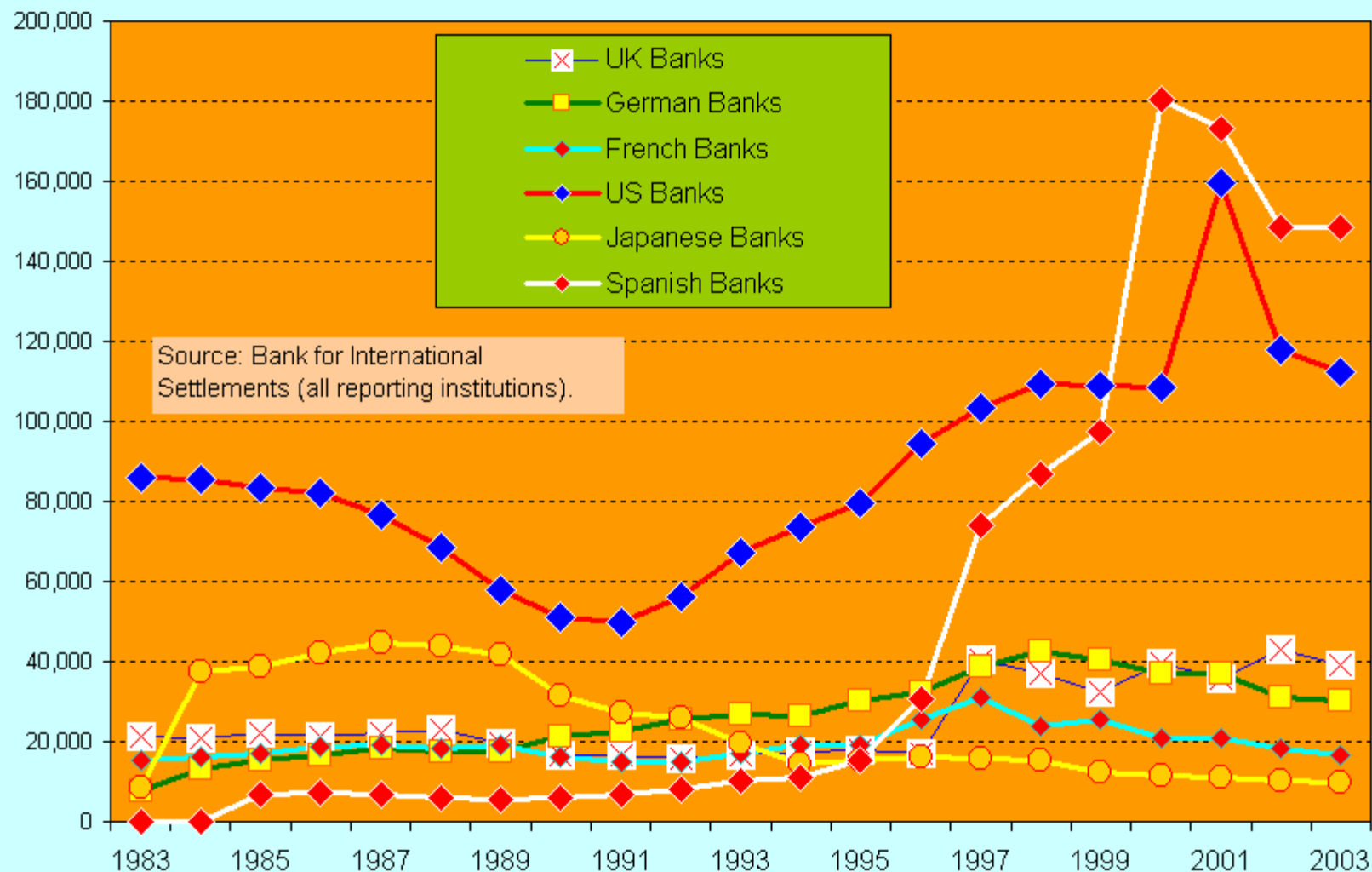


Figure 3. Net Private Capital Flows
(Billions of U.S. dollars)



Source: WEO

Figure 1: Banks' International Claims on Latin America by Nation of Lending Banks, 1983-2003 (Millions US\$96)



**Figure 2: Banks' International Claims on Asia / Pacific
by Nation of Lending Banks, 1983-2003 (Millions US\$96)**

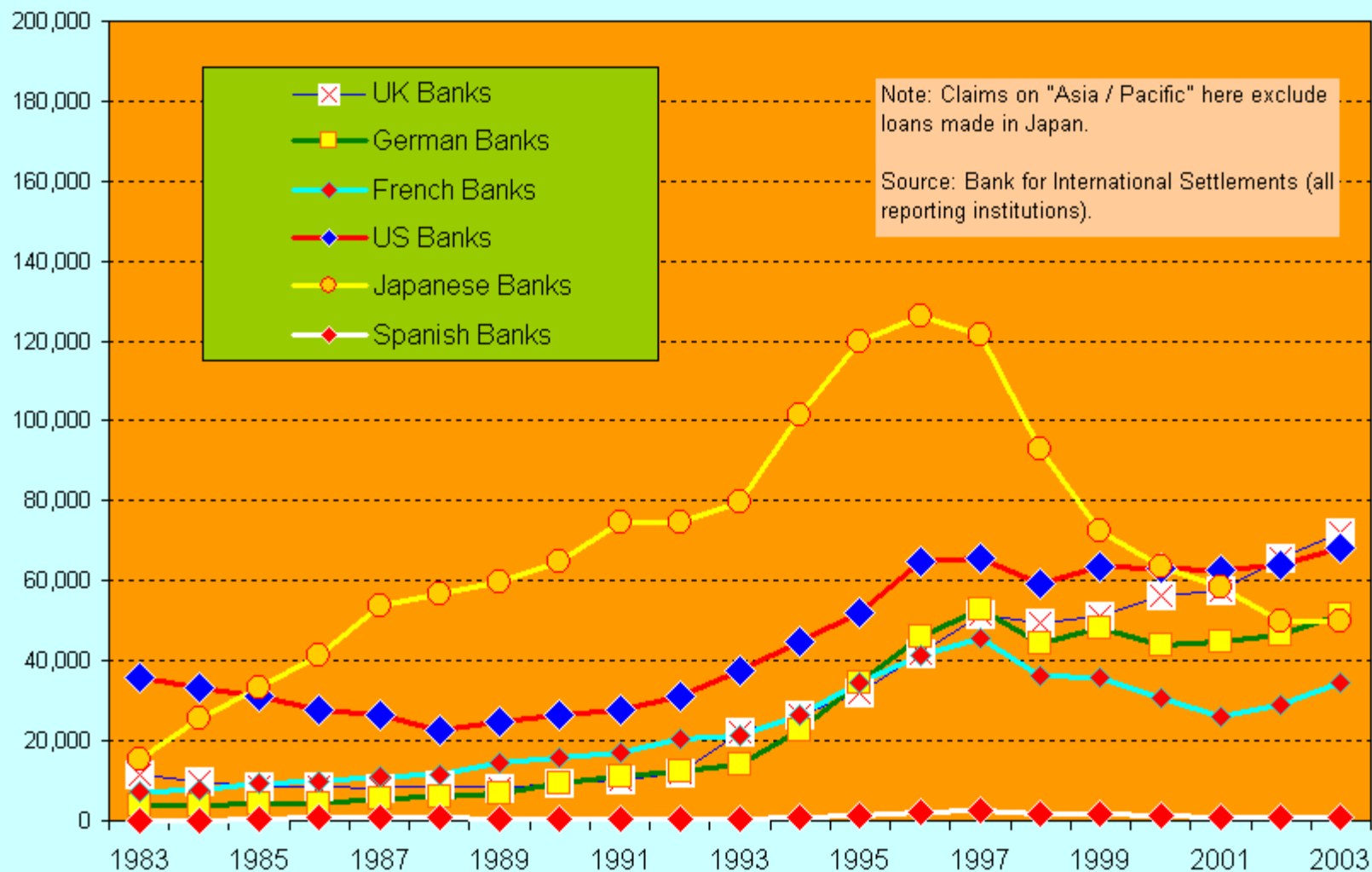
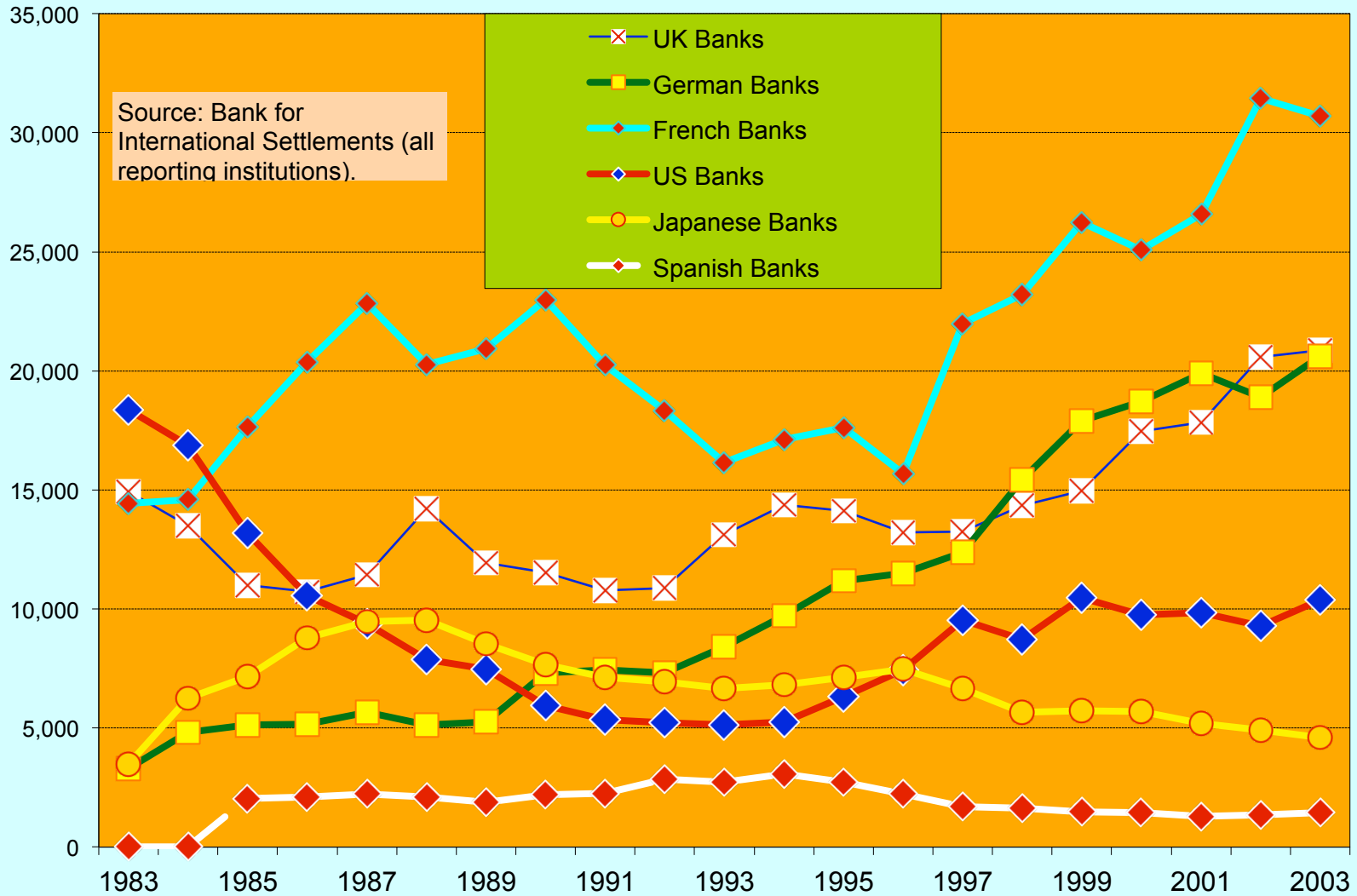


Figure 4: BIS-Reporting Banks' International Claims on Africa, 1983-2003 (Millions US\$)



3. Marxian/Kaleckian policy responses to crisis

Wolfgang Streek – *Buying Time: the Delayed Crisis of Democratic Capitalism*

A threefold economic crisis:

- 1. A banking crisis – too many banks in the Western world have extended too much credit, public and private, an unexpectedly large part of which went bad.
- 2. A fiscal crisis – budget deficits and rising levels of government debt, which go back to the 1970s, and which was worsened in many cases by the need to spend more in the 2008 crisis.
- 3. A crisis of the real economy – high unemployment and stagnation – because firms and consumers have difficulty in obtaining loans, many of them already in debt and banks short of capital – while governments must curb their expenditure and/or raise taxes. This reinforces the other two crises.

3. Marxian/Kaleckian policy responses to crisis

Streeck (2): There were some surprises for Marxian crisis theory ...

- a. No one foresaw the “financialization” of modern capitalism.
- b. The idea had spread that capitalist economy had been turned into a “prosperity machine which, with the help of the Keynesian toolkit, could be kept stable and crisis-free through orderly cooperation between governments and large corporations.” The pauperization of the working class was no longer visible.
- The crisis had turned into one of legitimation – whether “what it (capitalism) was able to supply would be enough to make its recipients continue playing the game”, not one of production (per classical Marxian theory).

3. Marxian/Kaleckian policy responses to crisis

Wolfgang Streeck – *Buying Time: the Delayed Crisis of Democratic Capitalism*” (p. 46)

- “To continue along the road followed for the last forty years is to attempt to free the capitalist economy and its markets once and for all – not from governments on which they still depend in many ways, but from the kind of mass democracy that was part of the regime of postwar democratic capitalism.” (46) ... “the money magic of the past two decades, produced with the help of an unfettered finance industry, may have finally become too dangerous for governments to dare to buy more time with it.” (46)

3. Marxian/Kaleckian policy responses to crisis

Approaches given the starting point of capitalist accumulation:

- Regulate it: reduce the required rate of profit and constrain the free movement of capital across borders; put sand in the wheels of commerce (“Tobin” taxes on financial transactions, wealth, etc.).
- Check out of the system (non-market exchanges, LETS and other alternative currency systems, cooperatives)?
- Elect and pressure governments to secure jobs and growth for the non-rich – the “working class”/the “social excluded” ... and to limit predatory, exploitative behavior by the powerful

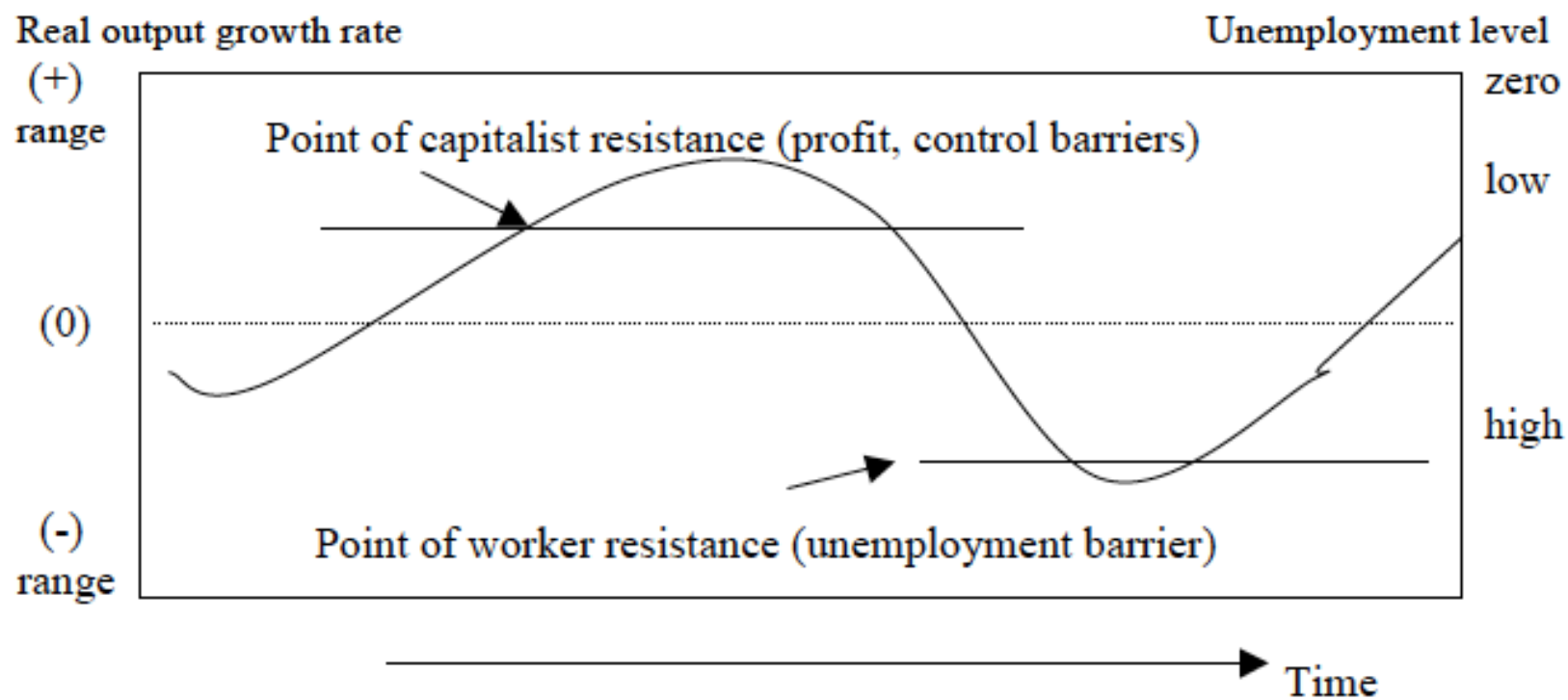
But:

- Can these strategies be coopted?
- At what point are the premises of capitalism threatened? Will capitalism simply wither on the vine (Mason, *Post-Capitalism*).

3: Marxian / Kaleckian policy responses: tension in intentions

- Premises:
 - if capitalism’s character is inhuman (alienating people from their ‘species-being’), and
 - if its self-expanding character leads to increasing inequality (the “1%”) and the failure to adopt viable technologies due to imposing high hurdle rates of return (“20% or we don’t invest”) and
 - if private decisions based on profit-seeking always dictate “choices” about investments and thus shape social space non-democratically:
- Then confrontation - not compromise – is needed.
- If this defines a Marxian view - contradiction is progress – then a Neo-Marxian view can be defined: work to transform social relations, overturning capitalism by changing its nature. (eg, Streeck)

Figure 2B: The Kaleckian political business cycle



4. Keynesian policy responses to crisis

- Neoliberal stagnation trap 1: profit, when earned, is controlled by capitalists who will not spend it. So there is always a search for new markets into which to sell. (Luxembourg/Kalecki)
- Neoliberal stagnation trap 2: Profit cannot be earned because there is insufficient demand for the goods whose purchase will validate it. (Keynes)
- Stiglitz: Wages and profits cannot be earned because banks/financiers do not make productive credit available.
- Minsky: Wages/profits cannot be earned because debt or financial instability burdens are making stable accumulation impossible.

4. Keynesian policy responses to crisis

- Neoliberal stagnation trap 1 (*Profits*): Shift toward wage-led growth: raise minimum wages, tax profits and/or wealth more heavily, allow for an organized worker voice at the ‘bargaining table’ (Stockhammer, Onaran, Sawyer)
 - “Force” capitalists to invest: Kalecki – Capitalists earn what they spend (profits earned equal investment).
 - If capitalists will not or cannot invest, the state must do it, via public works, infrastructure investment, and so on.
- Neoliberal stagnation trap 2 (*Aggregate demand*) Increase demand by any means necessary (Keynes: bury currency, let people dig it up).
 - “Modern monetary theory” (Wray, Levy Institute): set employment targets and use a “functional finance” approach, freely print money and put people on public fisc to get there

5. Are Marxian and Keynesian views consistent?

1. The problem of the surplus:

- Marxians see profit as evidence of the contradictory impulse at the heart of capitalism, proving its ultimate instability. Class conflict is there – the zero-sum game – is inherent in capitalist competition, evidence of its self-destructive tendencies.
- Keynesians see the system as having a growth imperative, which is the only means of overcoming stagnation. You have to grow your demand, to keep suppliers interested. Growth buys out your class contradictions. As long as you grow, everyone can have more.
- But! Kalecki, “Political Aspects of Full Employment,” suggests it cannot be so cozy – the capitalists will strike if their margins are too threatened.

5. Are Marxian and Keynesian views consistent?

2. The problem of asymmetric power

- Marxians are at odds over this. Is the economy a landscape of power or is it a realm of competition? The “global factory” and free capital mobility either create global asymmetries in “exit options” between employer(s) and workers.
- Keynesians mostly ignore power. Staying at the aggregate level of analysis, invisibilizes other “social relations of production” and makes them inconsequential.
- A key example here is power in finance. The asymmetric exit option creates an artificial shortage of capital, maintained by a threat to undercut the integrity of the financial system controlled by megabanks. This is policed by carry trade “arbitrage,” and the global regulatory game of *Three-Card Molly*.
- The distortion in the use of the public fisc – bailing out TBTF banks – is naturalized.

5. Are Marxian and Keynesian views consistent?

3. The problem of exploitation:

- Marxians ground exploitation in labor process. What do we do with a capitalism that has shifted the spatial basis of production so that many former workers are rendered surplus, unneeded? Do we have the super-exploitation of the few in the global South as the basis of capitalist profits?
- Keynesians argue for lower interest rates, to “kill the rentier”, but do not generally address the problem of exploitative lending rates in many nations. Is the fact that much of the working class around the world is paying exorbitant rates of interest to cover its cash-flow gaps not relevant for Keynesian analysis?
- So...who are exploited, and who constitutes the class that can overcome its rage and/or its shame and can fight back?

5. Are Marxian and Keynesian views consistent?

4. The problem of crisis and instability:

- Marxians see crisis as clearing the way for new rounds of accumulation based on a renewal of the conditions necessary to exploit labor in production. The state as a hammer to use on the disobedient region (European Union – Greece).
- But if for Marxians, the crisis is a crisis of capitalism, for Keynesians, it is a crisis of policy. Policy mistakes can bring down economic systems.
- If we follow Minsky in seeing financial instability as a natural process, and if financial innovation is inevitable, the “big bank” and “big government” must continually evolve to stabilize the system: Perry Mehrling, INET, the central bank as “dealer of last resort.”
- And a multi-level government like the Eurozone blocks the possibility of Minskyian “big government”/”big bank” rescues (no fiscal recycling/transfer mechanism, no central-bank stopgap)

6. Four challenges for radical change

- Once Keynesian consensus was eliminated in the global North – and once developmentalism was knocked aside in the global South, a wave of new alternatives emerged: New Keynesian economics, New classical economics, New Economic Geography, and so on.
- The problem of using state power to govern the market turned into the question of how to influence markets, how to attract capital.
 - Capital, once constrained, became ‘scarce’, attained power.
 - An irony in an age of ‘globalized finance’
 - Markets now discipline states at the highest level. EG, Argentina

6. Four challenges for radical change

1. Economic / social sustainability vs ecological challenges of climate change
2. Macroeconomic austerity context (top-down) vs. microeconomic (bottom-up) community development strategies (Co-production, voice)
3. Neoclassical sink vs. heterodox spiral
 - A “debate” about macro policy: DSGE as the model used to communicate with the people that matter
4. Power in finance and financialization: the stripping of production from workers (Brexit vote) vs. the growth of the fragile and unstable megabanking complex

6. Four challenges for radical change

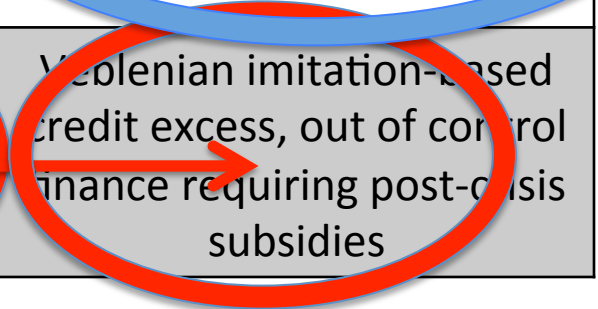
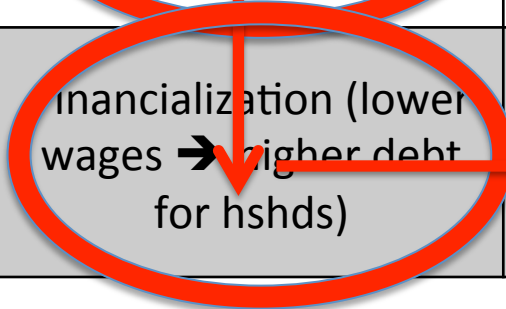
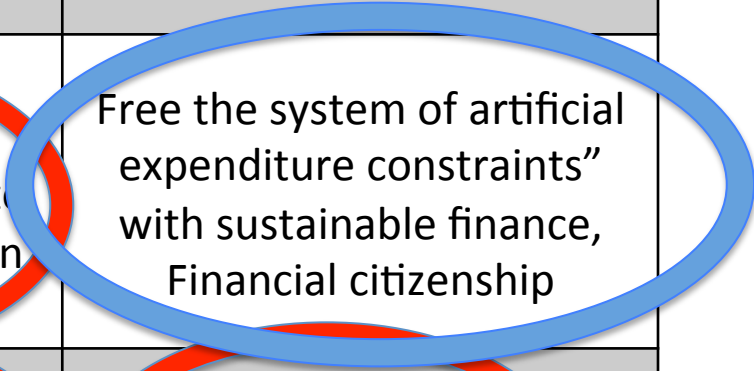
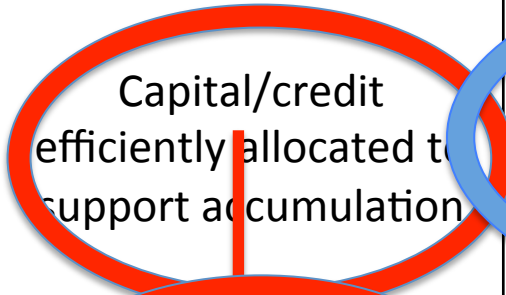
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Industrial competitiveness cycles: Verdoorn expansions to global factory to squeezed policy-space to post capitalism?

		Nature of industrial structure		
		Linear / regular/ no advantages to location	Localized spillovers available to be captured	Location-based Increasing returns to scale, agglomeration-driven
Cross-border balances (trade highlighted)	Trade surplus	Successful base-multiplier exchanges	→	Successful buildup of interconnected local industries
	Balanced trade or autarchy			The “circular economy” (New Economic Foundation)
	Trade deficit			Deindustrialization, industrial-policy failure

Efficient markets to Minskyian fragility and the wage-led alternatives

		Outcomes of distributional conflict (capital/ labor)	
		Profit-led growth (includes rentier Income from financial activities)	Wage-led growth
Impact of financial system on economic outcomes	Passive / reflective (fair assessment of credit needs)	Capital/credit efficiently allocated to support accumulation	Free the system of artificial expenditure constraints” with sustainable finance, Financial citizenship
	Financial fragility-bound, instability- inducing	Financialization (lower wages → higher debt for hshds)	Veblenian imitation-based credit excess, out of control finance requiring post-crisis subsidies



6. Four challenges for radical change

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1. From symbiotic finance to the escape of finance

- The finance/development approach, $Y = f(N, K, F)$, is a timeless equilibrium representation used in mainstream theory, with a vague or non-existent theoretical base, in which it is assumed that more finance, ΔF , will lead to more growth, ΔY .
- When finance is economically productive this should be the case, though for our purpose we want to place finance in real-time trajectories of capitalist accumulation. Such as:

$$M \quad - \quad C \text{ (MP,LP)} \dots C' \quad - \quad M'$$

Equity, working-capital
finance

Trade credit,
Risk-management

Consumption
credit

Expansion
finance

- Here, arguably, finance has productive spillovers, as it augments the pace of the accumulation and circulation of capital. It is also bounded in size, as F – given any state of technology - is limited by the scale of accumulation, and its activities by the needs of accumulation.

1. From symbiotic finance to the escape of finance

- Here we have symbiotic finance – earning income based on real-time flows in commodities, goods markets. Minsky was here: investment (finance) restores growth after downturn.
- But what the finance/development approach ($Y = f(N, K, F)$) leaves off, is that $\Delta F \rightarrow \Delta Y$ (more efficient transactions and savings allocations) is not the only relationship at work.
 - What if ΔF also leads to $-\Delta K$, slower real capital growth, due to less loan-making to SMEs, that is, to innovators who cannot fully collateralize their loans?
 - And what if ΔF absorbs a part of public spending; and in crises, monopolizes liquidity, starving non-financial firms of bridge financing?
- Then $\Delta F \rightarrow -\Delta Y$, as ΔF has negative spillovers on the growth of the non-financial sector. If its activities are independent of those of the non-financial sector, then its size is limited only by its capacity to manage its leveraging, combined with the availability of liquidity.
- *Then finance serves itself, not the non-financial economy, and is partially parasitic.*

Figure 10A: Trough-to-Peak GDP and Loan Growth, U.S. Commercial Banks, Average annual % change, Five-year time-spans, 1961-1990

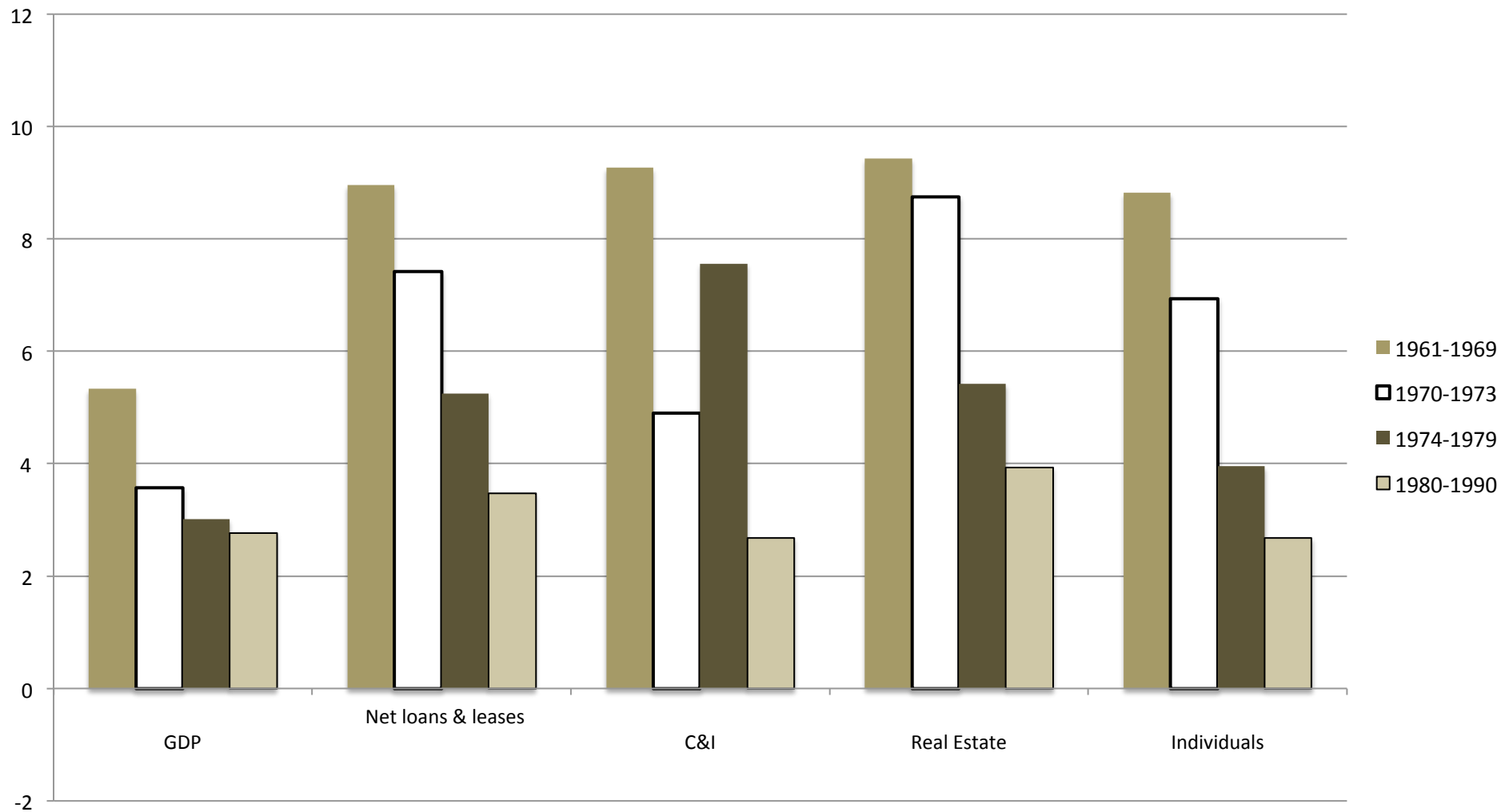
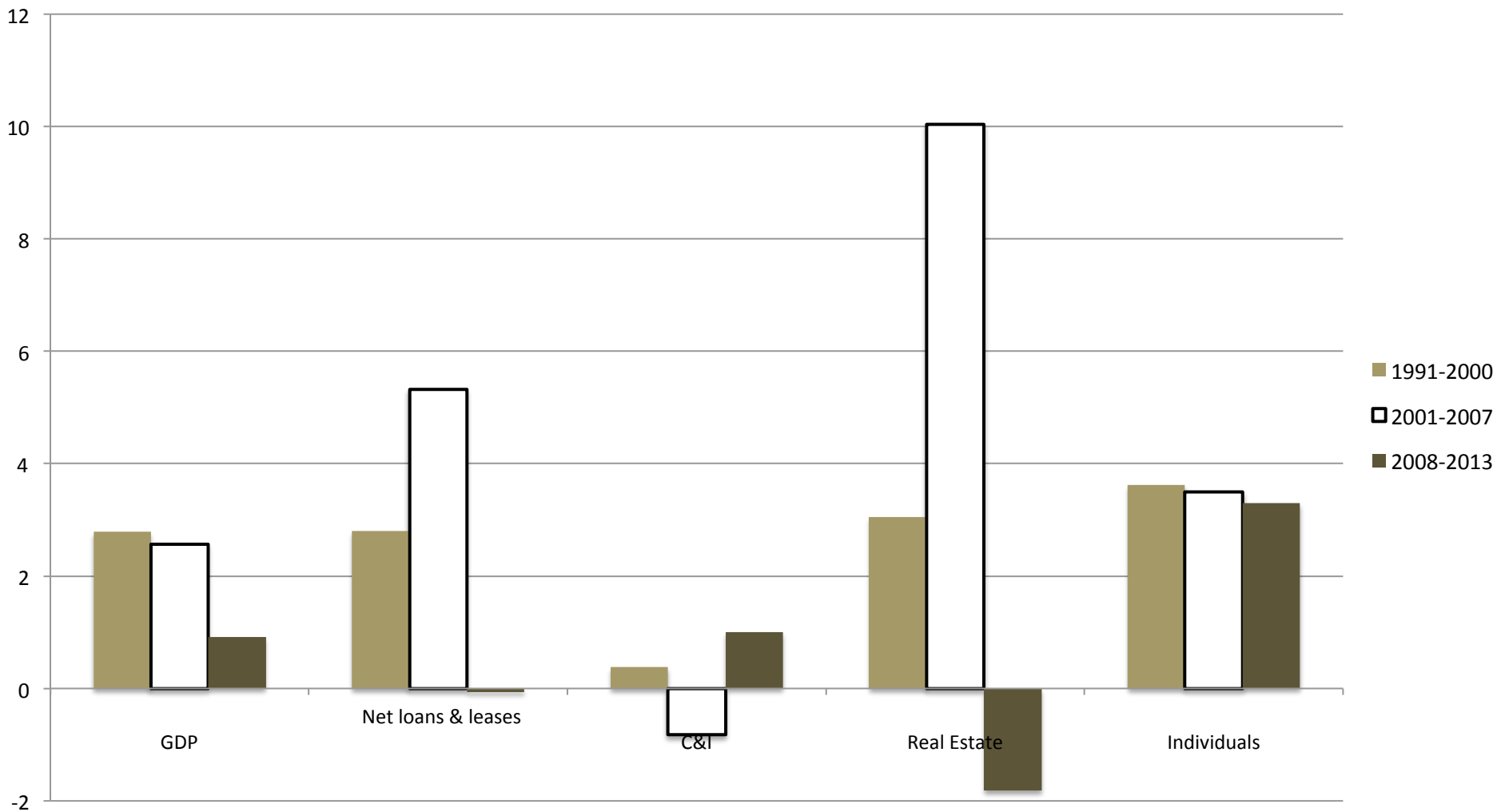
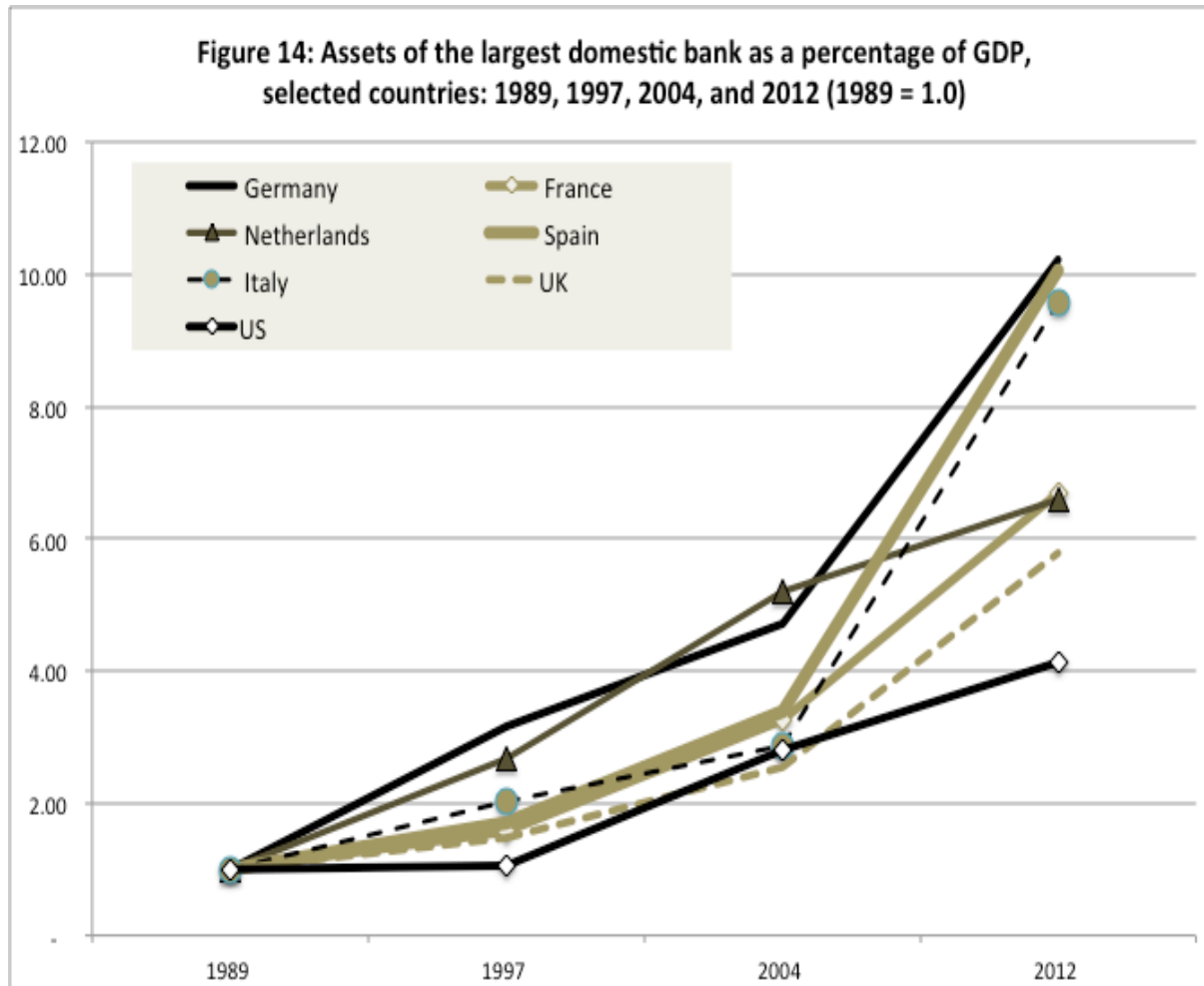


Figure 10B: Trough-to-Peak GDP and Loan Growth, U.S. Commercial Banks, Average annual % change, Five-year time-spans, 1991 to present





Accompanying this hyper-expansion of finance relative to income flows is the upward shift in the income of the upper 10% (Piketty) and the parallel growth of megabanks at the “micro” scale.

6. Four challenges for radical change

- Heterodox economists have (some) voice and we must make space.
- Gramsci: this is a war of position, and of strategy.
- *But:* You can put your body in the street, in the voting booth (in your country), you can migrate, you can flee.
- *Economic strategies relying on state counter-party depend on the continued relevance of the state as a boundary and organizer of community.*
- Minsky: “you beat a number with a number, and you beat a theory with a theory.”
- *You can change your mind, can you change other peoples’ minds? What then is your strategy?*

Special readings section: The European Monetary Union in crisis

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Special readings section: The European Monetary Union in crisis

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