A four-volume edition of this book was first published in a German translation in 1974 by Politladen, Erlangen, under the title Der Anti-Samuelson. The joint decision of the publisher and author to condense the work was dictated by the desire to reduce costs and thus bring its price within reach of both students and teachers. Inevitably, in so radical a scaling-down, a great deal of textual elaboration, annotation, and bibliographical data had to be sacrificed. Those who wish to pursue the author's ideas and argumentation in greater depth are referred to the unabridged German-language edition.
8 Keynesianism
S's Chapters 11-13

Keynes' General Theory made use of concepts quite congenial to the framework of the national income accounts, thus giving the latter the status of essential raw materials for the purpose of testing the theory and prescribing national policies based upon Keynes' system of thought.

—Barry N. Siegel, Aggregate Economics and Public Policy, p. 23.

In an important sense, these three chapters represent the central element of "modern" bourgeois economic theory: Not only do they form the most significant modification of bourgeois economics vis-à-vis the so-called neoclassical tradition, but they also provide the basis for much of the practical "policy" carried out by the state in the leading capitalist countries.

This part of "modern" theory is also the one its adherents find most difficult to clothe in "purely" theoretical terms, since it arose in response to the eminently practical political problems of the worldwide capitalist crisis of the 1930s. Not only did the practical crisis turn into a theoretical one, but the capitalist reality and theory that developed out of the 1930s assumed a new quality. A leading so-called left-wing Keynesian, Joan Robinson, describes the change thus:

By making it impossible to believe any longer in an automatic reconciliation of conflicting interests into a harmonious whole, the General Theory brought out into the open the problem of choice and judgment that the neo-classicals had managed to
smother. The ideology to end ideologies had broken down. Economics once more became Political Economy.¹

This description is itself "ideological" insofar as it attempts to draw an ahistorical parallel between Keynes and the classical bourgeois political economists (Smith and Ricardo); for the reality of capitalism changed qualitatively between about 1800 and 1930 in the sense that a rising capitalism turned into a dying one.

Keynes made the attempt to conceptualize the practical policy measures undertaken to keep alive a bankrupt socioeconomic formation. Whereas the classical political economists were conscious of the class structure of capitalism at a time when the proletariat had not yet become a revolutionary force, Keynesianism seeks to protect capitalism from the revolutionary political forces capitalism has given rise to. Thus in the political aspect of political economy there exists a crucial difference between the classical authors and Keynes in that the former could "afford" to be rather open and almost cynical about class relations, whereas the Keynesians have quite clearly not "overcome" that aspect of neoclassical economics which tends to deny the existence and/or importance of social classes.

Although the political and theoretical background against which Keynesianism arose is not secret, S makes very short shrift of these origins (cf. e.g. 344 f., 348); and the later editions in particular, saturated as they are with the spirit of optimism which S doubtless deems justified in light of the "performance" of the post-World War II mixed economies, have tended to present the reader with a fixed scheme of "modern" economic thought completely divorced from its historical origins. For this reason we will review the practical and theoretical origins of Keynesianism before proceeding to a critique of Keynesian theory as presented in these chapters.
I / POLITICAL-HISTORICAL BACKGROUND OF THE RISE OF KEYNESIANISM

A / THE GREAT CRISIS OF THE 1930S

Although capitalism had gone through many periods of depression or stagnation before the 1930s, none was so severe as that which began in 1929 and lasted until the near beginning of World War II. Of the phenomena that mark periods such as this, unemployment is doubtless the most important. Not only does the proletariat suffer, but the middle classes (the petty bourgeoisie, small capitalists, and "professionals") are also subjected to severe social and economic losses. Aside from the immediate material hardship, the potential effect of the ideological blow to the myth of unlimited "upward mobility" is not to be underestimated.

Although unemployment was not a twentieth-century invention, it had never before reached similar proportions. Thus Keynes, in speaking of the pre-1914 period, says: "The average level of employment was, of course, substantially below full employment, but not so intolerably below it as to provoke revolutionary changes." But with the mass unemployment of the 1930s, revolutionary changes became imminent.

B / KEYNES AS THE CONCEPTUALIZER OF AN ALREADY EXISTING PRACTICE

Amidst the widespread acclamation accorded the "Keynesian revolution" one tends to lose sight of the fact that Keynes merely rendered a theoretical account of an anti-mass-unemployment policy in effect in a number of countries. Neoclassical theory was largely unable to offer "policy recommendations" that could lead out of the crisis. This does not mean, however, that no fairly successful measures were taken even if they were not based on any well-developed theory. Increased public works, greater money supply, lower interest rates, and budget deficits were not invented by Keynes. The so-called multiplier theory, for example, gave theoretical shape to already existing efforts to deal with unemployment by means of public works. Two
of the responses to the problem of mass unemployment of the 1930s which may be regarded as anticipations of Keynesianism, or rather Keynesianism may be regarded as their later theoretical justification, were the New Deal in the United States and fascism.

The New Deal The New Deal was a much weaker version of Keynesianism than was fascism. The reasons for this are not of major interest for us here, yet we would like to mention a few. Because U.S. social legislation was relatively backward, its workers did not enjoy the same measure of "security" as did their European counterparts. Consequently this period saw the rise of social-security legislation (unemployment insurance and old-age pensions) in the U.S. Trade-union organization also was much more backward, and this tended to weaken the cohesion of the working class and prevent it from pressing radical demands. This also meant, however, that as a whole capitalism needed unionization, although the individual capitalists fought it with all their might. Although these various measures were not necessarily diversionary, they did serve to deflect the potential drive for more revolutionary demands.

Aside from the Keynes-type "experiments," three other "approaches" were under discussion during the 1930s: the cartelization of the economy with government backing; national economic planning, and incisive antitrust measures. None of these proved feasible. The first, put forward by "business groups," would have met too much popular resistance at a time when the reputation of capitalism was at a low ebb. The antitrust approach was a sham from the very beginning as far as its official state supporters were concerned. With respect to the efficacy of antitrust measures during the 1930s, Ellis W. Hawley notes that such a policy was "likely to be deflationary, at least for a long initial period."

To be really effective, it would involve putting the economy through the wringer, subjecting it to a round of debt repudiation, wholesale bankruptcies, corporate reorganization, and major price and wage readjustments. Such a process, to be
sure, might eventually bring recovery, provided it did not produce a revolution first. From a practical standpoint, it was never a realistic alternative.\textsuperscript{4}

And as to national planning, even its proponents eventually recognized that it was “politically impossible,” and so they as well as many antitrusters began to look at Keynesianism as an “attractive alternative.”\textsuperscript{5} By contemporary standards, the extent of Keynesianism in the U.S. during the 1930s was limited. Nevertheless, both before and after the publication of the General Theory a definite program was being put into effect. With respect to budget deficits as a means of combating unemployment, these were the deficits during the 1931-39 period (in billions of dollars):

\begin{tabular}{ccc}
\text{Year} & \text{Deficit} & \text{Year} & \text{Deficit} & \text{Year} & \text{Deficit} \\
1931 & -0.5 & 1934 & -3.6 & 1937 & -2.8 \\
1932 & -2.7 & 1935 & -2.8 & 1938 & -1.2 \\
1933 & -2.6 & 1936 & -4.4 & 1939 & -3.9 \\
\end{tabular}

As a result of this $24.5 billion increase, the national debt rose by about 150 percent during this nine-year period. Interest rates dropped to levels believed to foster increased investment; thus four-to-six months prime commercial paper, which stood at 5.85 percent in 1929 sank considerably below 1 percent after 1935. Corporate profits rose from $1.1 billion in 1934 to $2.9 billion in 1935, and to $5 billion in 1936, but wage and salary disbursements increased much more slowly: from $33.7 billion to $36.7 billion to $41.9 billion respectively.\textsuperscript{7}

It seems doubtful that this improved profitability was a result of government spending alone. That profits rose more rapidly than wages or national income was in no small part the result of the “self-healing” powers of the stagnation—among other factors, of the enormous destruction of capital and increased productivity as well as of wage levels lowered by mass unemployment. Because the pre-depression magnitude of capital was reduced, the rate of profit was based on a smaller invested capital. Similarly, rising productivity contributed to higher “profit margins,”
not least because it cheapened the elements of constant capital and devalued existing capital.

The results of the combination of the workings of the crisis and government spending become apparent when one compares the data for 1929 and 1941; between these two years, the last pre-stagnation and the last prewar year respectively, national income rose 19.3 percent, wages and salaries 22.2 percent, industrial production 33.2 percent, and corporate profits 43.6 percent; yet unemployment still remained at 9.9 percent, or considerably more than double that of 1929.8

Thus when Galbraith says that "The Great Depression of the thirties never came to an end. It merely disappeared in the great mobilization of the forties,"9 this is only partly true. To the extent that conditions of profitability improved through the crisis, it is strictly speaking not true that the period of stagnation had not been overcome. On the other hand, profitability had not been improved to the extent that it permitted a new period of accumulation strong enough to absorb the 8 million still unemployed in 1940.

On the one hand, the capitalist class welcomes unemployment, for without it there would be no sudden pulsations of accumulation. Beyond a certain limit and duration, however, unemployment becomes a "social problem" endangering the stability without which capitalism cannot exist.

This, then, was the problem facing American capitalism before the United States entered World War II; but in fact the "problem" turned out to be a political-economic crisis of international capitalism, and Keynesianism turned out to be the theoretical-ideological program that best synthesized the practical requirements of capitalism. Since the beneficial aspects of government spending did not fully reveal themselves in the United States until World War II, let us look at the country that proved to be the future model for other capitalist countries in crisis.

C / GERMAN FASCISM
At first glance it might appear sacrilegious to posit a similarity between fascism and Keynesianism. Not only do
bourgeois economists deny the more general connection between the welfare and the warfare state, but more particularly, many repudiate any similarity between Keynesian theory and practice and German fascist economic policy.

Before the appearance of the 8th edition it might have been necessary to demonstrate the Keynesian "affinities" of German fascism; but in the 8th and 9th editions S concedes—even though tucked away in Chapter 36 rather than in those on Keynesian theories and practice—that Hitler's "preparations for war 'solved' Germany's mass-unemployment problem and proved—in a tragically unnecessary way—the potency of Keynes-like fiscal and monetary policies" (707).

To be sure, S does not really concede very much, to judge by the quotation marks he puts around "solved," thereby clearly implying that the fascist method of dealing with unemployment was a sham compared with the real article of today's modern mixed economies. Given the fact that the scope of U.S. government spending has never been large enough to stave off large-scale unemployment except for the same type of war production as the Nazis', S's reference to the fascist policies as "tragically unnecessary" seems uncalled for, particularly in light of the fact that Germany was the only capitalist country at the time to have eliminated unemployment.

It is frequently alleged that whereas Keynesian policies are aimed at producing economic welfare, fascist policies produced full employment only as a by-product of rearmament. This is wrong for two reasons. First, with respect to so-called welfare, we have seen how little welfare has been produced by Keynesian or any other policies in recent years. And secondly, to view the elimination of unemployment as a mere by-product of German rearmament reveals a lack of understanding of the social and historical functions of German fascism. It is extremely unlikely that the Nazis would have been able to count on the acquiescence of the masses of workers had there been no jobs. In this sense, the New Deal had precisely the same objective. The fact that military production was the vehicle can hardly be used as the differentia specifica of fascism, given the
economic development in the United States since World War II.

One of the main tactics in the Keynesian attack on stagnation is allegedly the stimulation of consumption (by increasing the aggregate propensity to consume, the problem of effective demand is supposedly dealt with at least in part). But neither in Nazi Germany nor in democratic America was or does personal consumption form a substantial part of national production; rather it becomes that category which S and others euphemistically refer to as "collective consumption." Looking at the breakdown of GNP in Germany between 1928 and 1936, we find the following shifts.

<table>
<thead>
<tr>
<th>Year</th>
<th>Private Investment (%)</th>
<th>State Expenditure (%)</th>
<th>Consumption (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1928</td>
<td>9.8%</td>
<td>18.7%</td>
<td>71.5%</td>
</tr>
<tr>
<td>1932</td>
<td>3.7%</td>
<td>13.4%</td>
<td>82.9%</td>
</tr>
<tr>
<td>1936</td>
<td>10.1%</td>
<td>25.7%</td>
<td>64.2%</td>
</tr>
</tbody>
</table>

Not only did personal consumption drop from the relatively high level at the depth of the crisis when there was relatively little investment, but it also declined as compared with the pre-1929 level. The slack, as it were, was taken up by state expenditures; during the 1934-36 period, military expenditures accounted for 11.1 percent of national income.\(^{11}\) The relative growth of the production of means of consumption and means of production during the 1930s in Germany is still another expression of the same trend. Taking 1928 as the base year (=100), we note the following:

<table>
<thead>
<tr>
<th>Year</th>
<th>Means of Production</th>
<th>Means of Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>1932</td>
<td>46</td>
<td>78</td>
</tr>
<tr>
<td>1933</td>
<td>54</td>
<td>83</td>
</tr>
<tr>
<td>1934</td>
<td>77</td>
<td>85</td>
</tr>
<tr>
<td>1935</td>
<td>99</td>
<td>91</td>
</tr>
</tbody>
</table>
This development is significant insofar as it shows certain constraints in the practical application of Keynesian theories that will also assert themselves in later attempts to apply them in the U.S.—namely those connected with raising the aggregate propensity to consume by increasing the consumption of the masses directly.\(^{13}\)

This reliance on military production is connected to the commonly heard charge that since deficit spending played a relatively minor role in Germany in the thirties as compared to the U.S., Keynesian policies were not that relevant. Thus Schweitzer states that:

> Having little confidence in the output-creating effect of deficit financing, the business groups pressured the government into placing orders with their own plants, even though this had the potential effect of significantly increasing the volume of public investments.\(^{14}\)

However, it appears doubtful whether deficit financing is really the key to understanding these policies, and when interest rates on government bonds are extremely low anyway, the distinction between government borrowing and taxing does not appear to be crucial.

The fact that "business groups" had little "confidence" in the multiplier effect of deficit financing does not in retrospect appear to have been bad judgment on their part when one compares the results with those of the New Deal. Essentially the same phenomenon can be observed today in the U.S., when the largest "defense" contractors also "pressure the government into placing orders with their own plants." Such an arrangement involves no risk, since the "market" is guaranteed and one need not wait to see whether the multiplier effect of government public-works spending or whatever will raise effective demand enough so that these commodities—namely means of production—will become necessary for the producers of means of production.
consumption to meet the increased demand. In view of the fact that Keynesian policies originate in political necessities, it would be naive to believe that the distribution of the profits resulting from such policies is determined by some immutable unknown laws.

Although the specific intraclass struggles of the capitalist class will of course differ from one "mixed economy" to the next, the fact that such struggles do exist does not mean that Keynesian policies are not under way. Keynes does not mention such struggles either because of conscious demagoguery or possible naivete, for the extrication from so deep a crisis as that of the 1930s was connected with a vast shake-up of the capital structure involving enormous losses and gains—in short, capital centralization. On the other hand, this neglect also indicates that Keynes had not really resurrected "macroeconomics" and political economy, as has been suggested. Thus, in speculating on the consequences of implementing his proposals, Keynes says that:

"if effective demand is deficient, not only is the public scandal of wasted resources intolerable, but the individual enterpriser who seeks to bring these resources into action is operating with the odds loaded against him. The game of hazard which he plays is furnished with many zeros, so that the players as a whole will lose if they have the energy and hope to deal all the cards."15

True, in such a period of stagnation total profits do drop, but despite the enormous physical and value destruction of capital, the largest capitals emerge strengthened. We do not mean to imply that they desire such periods of crisis and stagnation, but still there is some understanding of the "self-healing" powers of capitalism on the part of some capitalists and economists. Since the main thrust of Keynesian policies is to restore conditions that will eliminate the necessity for "revolutionary change," the immediate purpose at any rate was not to raise profits (although this of course will become necessary, and these policies are also designed to raise profits). In this sense, the largest capitals have the least to lose from such periods and will be willing
to let the crisis run its "natural" course as long as it stops short of revolution.

Thus the differential effects of the Nazi economic policies for different sectors of the capitalist class, far from being a refutation of Keynesian programs, are a logical result of such politically inspired anticrisis programs.

The last similarity between fascist and Keynesian programs we will touch on deals with their platform against nonindustrial capital. Although Keynes' anti-"finance" capitalism differs from that of the Nazis in the sense that his avowed goal was to save capitalism while the Nazis demagogically proclaimed an anticapitalist program they had no intention of carrying out, it bears great similarity to that which the Nazis actually promulgated. (Keynes in his own fashion was something of a demagogue in that he asserted that some sort of new capitalism would grow out of his policies.)

In Keynes' conception, a minimal rate of interest would be crucial to increasing investment, and at the same time

it would mean the euthanasia of the rentier, and consequently the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital. Interest to-day rewards no genuine sacrifice, any more than the rent of land. . . . But whilst there may be intrinsic reasons for the scarcity of land, there are no intrinsic reasons for the scarcity of capital.16

To the extent that large concentrations of capital—whether in industrial enterprises or combined in capital groups controlling banks—enable capitalist industry to provide for its accumulation on the basis of its own profits—in other words makes it largely independent of the capital markets—the development of capitalism itself provides for "the euthanasia of the cumulative oppressive power" of the banks over industrial capital.

The Nazi battlecry against breaking the power of finance capital was an important propaganda tool to win over the petty bourgeoisie and the working class. But the laws passed by the Nazis served to foster accumulation—
especially among the largest capitals. Thus the Dividend Limitation Act of 1934 limited dividend payments to 6 percent of profits, thereby “restricting the distribution of dividends among the shareholders, who, in the view of German economists and lawyers, are a mere nuisance.”

This section does not purport to be an analysis of capitalism under German fascism, nor does it suggest that German fascism is to be equated with contemporary U.S. capitalism, let alone the mixed economy as a whole. Rather, it had the much more modest aim of showing up Keynesian economics as a crude sort of “political” economy whose primary end is the preservation of capitalism as a political-economic bastion against the possible alternative of socialism. It also gives new meaning to S’s assertion that Keynesian income analysis “is itself neutral” (8th ed., p. 293); for despite S’s contention that the theory can be used to “defend” or “limit” private enterprise, we see that its real flexibility lies in its adaptability to formally democratic as well as formally dictatorial capitalist societies depending on the political circumstance and the imminence of “revolutionary changes.”

D / THE TRIUMPH OF KEYNESIANISM

Inasmuch as Keynes merely synthesized a process already under way, it can be fairly said that the turning point for this new economic policy came in the period of its first major application—World War II. The rapid absorption of unemployment and the skyrocketing profits set in motion by enormous deficit spending helped to convince capitalists and economists that such a program offered the only way out of the long stagnation. And, of course, this was always coupled with assertions that the effect of war production was only coincidental and that any other type of “peaceful, civilian” spending would have the same beneficial results.

The enormous destruction of capital brought on by World War II as well as large-scale unemployment and the consequent low wages set off another round of relatively high
rates of accumulation in Europe, without recourse to Keynesian policies. Thus the political-ideological struggle for the new economic policy did not assume sharp forms in Europe. The U.S., however, not subject to a like level of destruction, found itself in urgent need of continued anti-stagnation policies.

1/ Full employment  The debates on full employment continued even in World War II; with unemployment substantially reduced, the capitalist class began to worry about the potential effects of permanent full employment. During the height of the war, as the following table shows, the U.S., U.K., and Canada had relatively low rates of unemployment (the same of course is undoubtedly true of Germany), while Sweden did not reduce unemployment to similar levels until after the war. But the United States and Canada failed to maintain their low levels in the postwar period, whereas the U.K., “since the trauma of high interwar unemployment . . . placed heavy emphasis on full employment as a central objective of national economic policy.”18 Given the unstable political conditions of postwar Germany, its high unemployment rates are not surprising, particularly in view of the large number of immigrants from the Soviet-occupied zone and from the former German territories to the east.

<table>
<thead>
<tr>
<th>Year</th>
<th>Canada</th>
<th>Germany</th>
<th>Holland</th>
<th>Sweden</th>
<th>UK</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940</td>
<td>9.3</td>
<td>19.8</td>
<td>11.8</td>
<td>5.0</td>
<td>14.6</td>
<td></td>
</tr>
<tr>
<td>1941</td>
<td>4.5</td>
<td>11.3</td>
<td>1.5</td>
<td>9.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1942</td>
<td>2.2</td>
<td>7.5</td>
<td>1.0</td>
<td>4.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1943</td>
<td>0.8</td>
<td>5.7</td>
<td>0.5</td>
<td>1.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1944</td>
<td>0.5</td>
<td>4.9</td>
<td>0.5</td>
<td>1.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1945</td>
<td>1.4</td>
<td>4.5</td>
<td>1.0</td>
<td>1.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1946</td>
<td>1.4</td>
<td>7.5</td>
<td>3.2</td>
<td>2.5</td>
<td>3.9</td>
<td></td>
</tr>
<tr>
<td>1947</td>
<td>1.3</td>
<td>5.0</td>
<td>2.8</td>
<td>2.0</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>1948</td>
<td>2.2</td>
<td>4.2</td>
<td>2.8</td>
<td>1.6</td>
<td>3.4</td>
<td></td>
</tr>
<tr>
<td>1949</td>
<td>3.0</td>
<td>8.3</td>
<td>2.7</td>
<td>1.6</td>
<td>5.5</td>
<td></td>
</tr>
<tr>
<td>1950</td>
<td>3.8</td>
<td>10.2</td>
<td>2.2</td>
<td>1.6</td>
<td>5.019</td>
<td></td>
</tr>
</tbody>
</table>
The debate on full employment is marked by a basic tension between the political necessity of avoiding the massive unemployment that could trigger anticapitalist feelings and the political-economic necessity of not interfering with the "natural" laws of capitalism that make unemployment an essential aspect of the process of capital accumulation. The level of "employment" created for the above political reasons at the possible expense of profitability in the short run was determined by a variety of factors, chief among them the degree of existing unemployment, the strength of the working class, the cohesion of the capitalist class, as well as the power of the larger, monopoly capitalists vis-à-vis the smaller capitalists, and the general profitability of capital at any given time. The outcome—which changes with shifts among these factors in one direction or the other—is determined by complex political-economic class factors and cannot be reduced to a "policy decision" or "the will of society." On the other hand, the familiar theses about "trade-offs" between unemployment and some other "variable" are simply superficial reflections of this much more complicated process.

In the postwar period the British ruling class was compelled to support policies fostering relatively low rates of unemployment—and the Tory government in 1951 continued them—partly because of the deteriorating situation of British capital, the result of the setbacks British imperialism sustained after the war. And so the ruling class was not in a strong enough position to subdue its working class at home. However, the fundamental contradictions of capitalism have a way of reasserting themselves regardless of Keynesian state intervention; they can be "bottled up" for just so long before bursting through and making their appearance in originally unanticipated forms.

The definitions of full employment tend to underscore its function as a political response to a political threat. Thus one early postwar British discussion defined full employment as "avoiding that level of unemployment, whatever it may happen to be, which there is good reason to fear may provoke an inconvenient restlessness among the elector-
And a committee of the American Economic Association defined it quite simply: "Full employment is the absence of mass unemployment." The difference between these two definitions reflects objective differences between British and U.S. national capital and between the degree of class consciousness of the British and American working class. But it also points to the objective situation in both countries, for full employment or, rather, low levels of unemployment, are in large measure based on the factors determining the creation of a reserve army of unemployed. To mention an important one: whereas industry in the postwar period the United States—and to an even greater extent in continental Western Europe—provided for a greater supply of industrial workers from among the ranks of those displaced from farms and "independent" trades, Great Britain, in this sense the most developed of all capitalist countries, had already "transferred" an extremely high percentage of its work force into the sphere of industrial surplus-value production. This meant that the "latent surplus population" (Marx) had already been largely absorbed, so that this important factor in the creation of a reserve army of unemployed was lacking. This complex of factors provided an objective basis which considerably facilitated a policy of low employment.

Before taking a brief look at the so-called Full Employment legislation enacted in the U.S. after World War II, we should like to comment on the framework within which full employment is conceived by bourgeois authors, one which very definitely presupposes the capitalist mode of production as its social base. In capitalism, even under conditions of zero unemployment, there will still be a significant number of people who do not work, because in capitalism "people" have the right not to work, whereas in a socialist society they have the right and the obligation or responsibility to work. This "right" in capitalism of course means different things to different social classes: for those with titles to the constituent parts of surplus value it means the right to be idle, whereas for all others it means the right to starve to death, or its "modern" equivalent.
This is an important point inasmuch as it indicates that later discussions of GNP-gaps, etc., do not relate to some sort of technical facts but rather presuppose very specific social and historical conditions in which "labor supply" excludes many who in another society could contribute to the production of social wealth.

In closing, we will attempt to show the headway made by Keynesianism in the early postwar period in the U.S. S offers almost no information on this, and that which he does offer is largely misleading. Thus in Chapter 19 he states that "the historic Employment Act of 1946 brought the United States up to the other mixed economies" by creating "agreement that we must continue to succeed in laying to rest the ghost of instability, chronic slump, and snowballing inflation" (354). In view of the mass destruction of Europe and the relative prosperity of the U.S. one can only wonder what this is supposed to mean. The "mixed economy" as a permanent feature of capitalism as opposed to an ad hoc reaction to various "emergencies" had not yet evolved, nor had a well-developed theory of that economy. That "everyone" is in agreement on such policies is refuted by S himself in the first edition of his textbook, in which he referred to a "fundamental difficulty with full employment"—namely "the fact that wages and prices may begin to soar while there is still considerable unemployment and excess capacity." For in discussing this "biggest unsolved economic problem of our time," S reported this discordant view:

Some pessimists have argued that there is nothing to do but to hope for a large enough "army of the unemployed" to keep laborers from making unreasonable wage demands; thus, a reserve army of 10 million jobless hanging around factory gates might keep wages from rising and labor from becoming obstreperous [p. 435f].

Fortunately for the "pessimists," forces stronger than "hope" were in play; for capitalism has its own laws that cause unemployment.

Although the motto to Chapter 19 speaks only of promot-
ing "maximum employment," S erroneously asserts in the text that the Employment Act of of 1946 set up bodies "to help ensure full employment" (354). This confuses the Employment Act of 1946 with the Full Employment Bill of 1945, which involved "the notion of the right to employment." This latter bill, against which "the most powerful business groups, led by the National Association of Manufacturers and the Chamber of Commerce, mounted a militant campaign," was severely emasculated so that "what finally emerged was a very different animal from the depression-eater of 1945." And another author has commented that "by its rejection of the Full Employment Act of 1945 the American Congress had indicated that it did not want to bind itself in advance to 'Keynesian' methods of attaining full employment." In point of fact, U.S. capital had decided not to commit itself to the attainment of full employment. As long as there was no united working class to press the demand, the state was not about to make it a present of full employment. This, however, does not mean that Keynesianism had been dealt a mortal blow, but rather that the record wartime profits had made capitalists very skeptical about the need for massive "peacetime" government spending. Thus so-called Keynesian programs were held in abeyance.

21 The ideological function of Keynesianism Perhaps the greatest virtue of Keynesianism is its ability to serve as a unifying ideology for big capital and left-wing reform movements. Certain sectors of the capitalist class had weakened Keynesian policies in the 1930s because Keynes offered theoretical justification for a process already underway. But he also offered benefits that transcended mere recapitulation; and it is in this ideological sphere that we must look for the qualities of Keynesian economics which have elevated it to its present-day eminence.

The crisis of the 1930s also marked a crisis for bourgeois economic theory. Not only was it incapable of explaining that crisis, but it was part of a century-old tradition that denied the possibility of so extended and deep a crisis. Under these circumstances theoretical straws were literally
being grasped at, and an alternative was much sought after, but, of course, not just any alternative, for after all, there already existed a theory—Marxism—that sought to explain crises and other attributes of capitalism and that stood in clear opposition to the discredited bourgeois theory. The search was for a theory that could devise an overall strategy to save capitalism.

It is revealing to look at the almost identical descriptions of the atmosphere which Keynes created, at least in academic circles, by two economists whose course was later to diverge but who in the 1930s were considered rising stars at Harvard. Thus S in his obituary of Keynes confided that:

It is quite impossible for modern students to realize the full effect of what has been advisably called "The Keynesian Revolution" upon those of us brought up in the orthodox tradition. . . .

The economists' belief in the orthodox synthesis was not overthrown, but had simply atrophied: it was not as though one's soul had faced a showdown as to the existence of the Deity and that faith was unthroned, or even that one had awakened in the morning to find that belief had flown away in the night; rather it was realized with a sense of belated recognition that one no longer had faith, that one had been living without faith for a long time, and that what, after all, was the difference?25

Paul M. Sweezy, doubtless the most famous Marxist economist in the U.S. today, told how Keynes restored "faith" in this way:

Probably only those who (like the present writer) were trained in the academic tradition of economic thinking in the period before 1936 can fully appreciate the sense of liberation and the intellectual stimulus which the General Theory immediately produced among younger teachers and students in all the leading British and American Universities.26

In the case of Sweezy—and he is merely the most prominent example—the Keynesian influence proved to be last-
ing, despite his later leftward development. Thus during the 1930s he coauthored a volume with six other Harvard and Tufts economists which proposed a Keynesian method for "recovery" that, allegedly for reasons of political acceptability, stopped far short of revolutionary changes.  

But even after Sweezy had become a Marxist, he apparently still considered Keynesian theories unassailable on theoretical grounds. Thus in an important book written in 1942 he contends:

> Generally speaking their (Keynes' writings') logical consistency cannot be challenged, either on their own ground or on the basis of the Marxian analysis of the reproduction process. The critique of Keynesian theories of liberal capitalist reform starts, therefore, not from their economic logic but rather from their faulty (usually implicit) assumptions about the relationship, or perhaps one should say lack of relationship, between economics and political action. The Keynesians tear the economic system out of its social context and treat it as though it were a machine to be sent to the repair shop there to be overhauled by an engineer state.  

Thus Sweezy announced programmatically that the Keynesian theory is true in the abstract but that the conditions under which it can develop its real powers cannot be realized in capitalism as a result of political factors which the theory does not understand. And almost a quarter century later Sweezy collaborated with the Marxist economist Paul Baran on an important study of contemporary capitalism which largely operates with a Keynesian analysis supplemented by an anticapitalist class analysis.  

S welcomed this development, saying: "Even Marxist economists, who at first resented Keynesian economics as a 'mere palliative' to the ills of capitalism, have come to recognize its explanatory powers" (206). By this he does not necessarily mean Sweezy but rather Soviet economists, for in the third edition (1955) he still gave low marks to those unbelievers:  

Perhaps we should be thankful that the Russian economists have not mastered modern elementary economics; they do not
yet understand the "neo-classical" synthesis which . . . clearly demonstrates the ability of resolute free societies to dissipate the ancient fear of mass unemployment [p. 709].

This is clearly a misunderstanding. First of all, the "fear" of mass unemployment—that is the political struggle surrounding it—dates back only to the 1920s and '30s. Secondly, by and large, Soviet economists have maintained a fairly realistic attitude toward the possibilities of political intervention to stem revolution. But thirdly, this has never been accompanied by an acknowledgment of the correctness of the Keynesian analysis of capitalism, which is still considered vulgar economics.30

More significant than the influence on such individual theoreticians as Sweezy has been the penetration of Keynesianism into the trade unions and social-democratic parties of many capitalist nations, and this process is an important factor in the ideological struggle to integrate these movements into various state programs designed to thwart revolutionary change.

Since victorious Keynesianism combined a pro-ruling-class ideology with an appeal to the "disaffected" left, it was inevitable that those who opposed increased state spending would accuse the Keynesians of supporting creeping socialism. In locating the root of the crisis of the 1930s in psychological factors, Keynes could appear critical of capitalism while at the same time excusing it on the basis of factors beyond its control. A central element in Keynes' so-called revolution of economic theory involves his refutation ofSay's Law, which in turn rests on the proposition that consumption does not rise as rapidly as income, and that the reasons for investment and saving diverge. Keynes' own propensity to ascribe suprahistorical validity to theories with but a rational kernel in certain societies is admirably summarized in this statement:

There has been a chronic tendency throughout human history for the propensity to save to be stronger than the inducement to invest. The weakness of the inducement to invest has been
at all times the key to the economic problem. To-day the expla-
nation of the weakness of this inducement may chiefly lie in
the extent of existing accumulations; whereas, formerly, risks
and hazards of all kinds may have played a larger part. But the
result is the same. The desire of the individual to augment his
personal wealth by abstaining from consumption has usually
been stronger than the inducement to the entrepreneur to aug-
ment the national wealth by employing labour on the con-
struction of durable assets.31

As is true of many other examples of suprahistorical think-
ing, attention is diverted from the specific characteristics of
each economic formation to alleged characteristics of indi-
viduals in a given society. Thus for instance "the desire of
the individual to augment his personal wealth by abstain-
ing from consumption" has rarely been an important motor
of development—or retardation—in any society; although at
certain stages in certain societies the miser has served an
important function with respect to accumulation, this has
never been so universal as to justify Keynes' reference to
the individual. Those who save to augment their wealth—as
opposed to those who put something by for a rainy day—
have always known where to look for profit: in capitalist
production. If they do not choose to invest there, that re-
luctance is based on the likelihood of low profitability. It
has nothing to do with personal desires and inducements.

But by concentrating on individual psychological defects,
Keynes can deflect attention from the objective workings of
the specific mode of production to the alleged shortcom-
ings of individual members of capitalist society. Thus he
can avoid condemning capitalism while coming down very
hard on individual scapegoats. At the same time this per-
mits Keynes to postulate the mastering of the crisis by
bringing in the state as deus ex machina, charging it with
overcoming the unwelcome psychological propensities of
savers and entrepreneurs by means of its taxing and spend-
ing powers as well as of its control of the money supply.

In this way Keynes can assert that the most "objectiona-
ble" features of capitalism can be eliminated while demo-
cratizing capitalism, since "the common will, embodied in the policy of the state,"32 will assume responsibility for "supplementing the inducement to invest." Formally, this seemed to indicate that the state was merely a tool which could be used to gain control over capitalism, to limit its "abuses." And this is also what S is getting at indirectly when he says that Keynesian income analysis can be used to defend or limit private enterprise (8th ed., pp. 193 f.). But this is ideology, for Keynes' theories were not intended to limit capitalism.

Even a "well-intentioned" left-winger would have trouble "limiting" capitalism with the help of Keynes, since Keynes did not develop any theory dealing with the fundamental contradictions of that society. There is of course Keynes' "utopian" strain, which envisions eliminating capital scarcity and thus lowering the marginal efficiency of capital to zero.33 But in fact Keynes' utopia does not project the disappearance of capitalism but only of its "objectionable features."

Another important Keynesian postulate that has served to make Keynesianism "attractive" to the "disaffected" lies in the removal of "one of the chief social justifications of great inequality of wealth," which Keynes considers one of "the outstanding faults of the economic society in which we live."34 Key to Keynes' argument is the point that saving on the part of the rich is what impedes the growth of wealth. And even though he recognizes that "saving by institutions and through sinking funds is more than adequate,"35 Keynes does not seem to understand the significance of this fact for his theory, for it destroys the basis for his refutation of Say's Law—namely that saving and investment are undertaken by different individuals for different reasons. And if it is investment—or rather the profitability of the previous round of investment, the degree to which capital self-expanded—that determines what will happen with savings, then it is basically irrelevant whether profits are retained by corporations or are distributed to shareholders and then reinvested through the return flow of these "funds" through the capital markets. If large in-
comes were taxed, it would not prove difficult to retain a greater share of the profits within the corporation, necessitating the taxing of profits instead of the taxing of so-called inequitable incomes.

This brings us to our second point, one related to another expression of contradictions in capitalism (sometimes called dilemmas, and more recently, in line with "modern" developments, trade-offs) as they are perceived on the surface of events, especially in conjunction with the "ability" of Keynes' state intervention to shift the phenomenal forms of basic contradictions without understanding what is happening.

We will return to various proposals for income redistribution as a means of increasing the marginal propensity to consume. For the time being we will confine ourselves to the comment that despite the fanfare surrounding this issue in Keynesian literature, as a practical measure it has remained a dead letter.

One final aspect of Keynes that might recommend him both to the capitalist class and left-wing reformists is his attitude toward wage reductions during a depression. Although Keynes disagreed with his neoclassical colleagues on theoretical principle that a reduction of wages could by itself stimulate a recovery (because of effective demand), more than theoretical principle was at stake here. For Keynes was much taken up with "ordinary experience" which "tells us, beyond doubt," that

Whilst workers will usually resist a reduction of money-wages, it is not their practice to withdraw their labour whenever there is a rise in the price of wage-goods.36

For Keynes the practical problem was not whether lower wages would reduce unemployment but how to reduce wages. Ultimately he opted for "more subtle ways of wage-cutting than those traditionally employed"37 namely "a flexible money policy": in other words, inflation. First of all, the difficulty involved in effecting uniform wage reductions and the comparative ease of raising prices to achieve
the same end was no discovery of Keynes’; it was merely an established practice conceptualized and generalized by Keynes.

3/ The Role of Samuelson’s Textbook in the Spread of Keynesianism In discussing the triumphal entry of Keynesianism into the American scene the key role played by its academic propagators should not be underestimated. Even though Keynes merely conceptualized already existing phenomena, people had to be won over to this conceptualization. The enormous expansion of university-level economics as well as the intensified emphasis on social studies in general was an expression of an ideological need for greater general understanding of the mixed economy. Keynes’ followers found themselves faced with three basic tasks: to develop the theory, to propagate it, and to “bring Keynesian ideas to the center of effective policy-making”:

The second task was to bring the message to a wider public. This task fell, as it happened, primarily to one man. In this way, the first edition of Samuelson’s Economics: An Introductory Analysis (1948) created a stir comparable to that of the General Theory. It represented as drastic and refreshing a departure from the textbook of the previous generations as did the work of Keynes, the exposition of whose work forms its heart. It was in addition brash, irreverent, lively, and contemporary. It has now gone through seven editions . . . and continues to dominate the textbook market in introductory courses in economics. Virtually every college graduate who has taken a course in economics in the past twenty years has come under the influence of this book and its imitators.38

In other words, Samuelson wrote the first Keynesian bourgeois economics textbook. Since according to S himself his “book is written primarily as a textbook for those who will never take more than one or two semesters of economics (1st ed. p. v), we will concentrate mainly on the purpose he seeks to serve. At that time (1948), S was concerned with the fate of the “intelligent citizen” with a “critical” approach to the sources reporting on the “economic institutions and problems of American civilization in the
middle of the twentieth century." Yet this "intelligent layman" was expected to accomplish this with apparently outmoded texts which, "built on foundations laid down at about the time of World War I" and thus without "national income" as "the central unifying theme," could no longer "help" with the "important civic duty" just mentioned (pp. v-vi). S set himself two main tasks: to convince the student of the seriousness of the situation confronting U.S. capitalism, and to impress upon him or her the need for Keynesian policies able to preserve our "own concepts of democracy and freedom"—"a different commodity" from the "‘industrial democracy’" the "Russians claim to have" (p. 588)." The first of these tasks S tends to rather admirably in the following passage.

Either we learn to control depressions and inflationary booms better than we did before World War II, or the political structure of our society will hang in jeopardy. For the ups and downs in business do not cancel out. At the top of the boom—if we are lucky!—there may be relatively favorable job opportunities for all who wish to work. Throughout the rest of the business cycle, men's lives are being wasted, and the progress of our economic society falls short of our true economic possibilities. If, as before the war, America marks time for another decade, the collectivized nations of the world, who need have no fear of the business cycle as we know it, will forge that much nearer or beyond it. Worse than that, peace-loving people who do not pretend to know very much advanced economics, will begin to wonder why it is that during two World Wars individuals were freed for the first time from the insecurity of losing their jobs and livelihoods [ibid., pp. 393f.; our emphasis. This is still repeated in the 2nd and 3rd eds.].

When one compares this statement with the euphoria that permeates subsequent editions one begins to appreciate the ideological changes which have since taken place. Of particular interest is S's admission that insecurity is the normal condition of a worker in capitalism. Connected with this acknowledgment is his fear that the victim of insecurity might turn to that system which even according to S can eliminate those threatening factors the mixed economy has
not been able to: unemployment and business cycles. This respectful bow to socialism stands in stark contrast to the pedestrian anticommunism of his later editions.

This chronological discrepancy might indicate that what S really was interested in was to prevent the recrudescence of such movements. But how was this to be accomplished, since his potential audience was composed of students rather than workers? The question arises why he is directing his message toward those posing a lesser danger to "the system." The answer would seem to be that it is crucially important to persuade these members of society of the miraculous properties of the mixed economy because they make up the core of the literate electorate, since from the bourgeois point of view they are likely to be in a position to use their abilities and training to discover the aggregate social connections hidden to those of more limited experience. Without the political support of this "segment of the population," the capitalist class, after all a very small minority, would find it difficult to stay in power. And this group is also important because of its influence on the working class. For among the functions of these purveyors of ideology is to divert attention from the basic contradictions of capitalism.

S's book of course is only a part of this process. But if the "head workers" had not been persuaded that the system they are serving was superior to any other, the state would find it impossible to recruit a sufficient number of them to carry out its tasks. This point is one of paramount significance for the students who are subjected to the bourgeois precepts propounded by S and others like him. The uncritical acceptance of the material in their books plays no small part in defining the objective content of the students' future activities as workers; and for this reason, they ought to give careful attention to the objectives pursued in their education.

E / THE FAILURE OF KEYNESIANISM

1/ Introduction The recent crisis in the U.S. (1969-?) charac-
terized by the simultaneity of high levels of unemployment and inflation, has brought consternation to the usually glib Keynesians. Although most recent developments have highlighted the gap between the promise and the reality of postwar Keynesianism, this should not blind us to the fact that the overall record of the mixed economy has left something to be desired. This fact finds superficial expression in the bourgeois notion of the GNP gap, which, according to S, is “the gap between what we actually produced . . . and what our economic system was capable of producing at reasonably high employment and capacity utilization” (235). The key words here are “our economic system” and “reasonably,” for they tightly circumscribe the assumed potential. Not only does this definition take for granted a certain amount of unemployment and underutilization of capacity in excess of technological requirements, it also presupposes the existing class relations of ownership which determine how and for what purposes human labor will be used. The absurdity of this limited approach is made crystal-clear by the negative gap during a number of years of the Vietnam War when, as the result of “overfull employment” (under 4 percent officially), national product apparently exceeded what could “reasonably” be produced.

In other words, Keynesian economics is concerned merely with the very tightly defined sphere of the possible and the actual; and if U.S. workers knew, for example, that the U.S. economy was producing more than was “reasonable” in the years 1966-69, they would doubtless find this odd, particularly in light of the fact that their real wages declined during this period.

S says that from 1953 to the early 1960s unemployment and effective demand were troubling for the economy, but that with the advent of Kennedy “the full-employment growth path” once again was taken (234). As the following data on manufacturing output and capacity during these years, based on indices of physical production and capacity, indicate, there was a much wider “gap” than S admits to:
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<tbody>
<tr>
<td>output</td>
<td>+18%</td>
<td>+70%</td>
<td>−4.7%</td>
<td>+90%</td>
</tr>
<tr>
<td>capacity</td>
<td>+37%</td>
<td>+50%</td>
<td>+9.9%</td>
<td>+141%</td>
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Thus, between the end of the Korean War and 1961 (the "Eisenhower years"), manufacturing capacity rose more than twice as much as output; during the 1960s both production and output increased substantially, with production leading; and during the recent "recession," physical production actually decreased while capacity continued to mount. During the period as a whole, capacity outstripped production by more than one half. In one of the rare passages in later editions which still warn of the possibility of depressions, S points out that the costs of forgone output during the 1930s "were of the same general magnitude as the costs of all the economic resources which had to be used up in World War II itself" (234). Perhaps so, but this stands in contradiction to his view of state military production which he considers as productive as any other type of spending. In this sense, World War II was no more a "cost" than the production of automobiles today. And in any event, S ought to be careful about calling such spending a cost in view of the fact that it brought unemployment down to less than 4 percent (Korea, Vietnam), which no other spending has managed to do since World War II.

With respect to the powers of Keynesianism, S lists three types of poverty: "ancient poverty due to . . . inadequate production potential"; "unnecessary poverty in the midst of plenty, poverty due only to bad purchasing power behavior of the system"; "poverty due to uneven and bad distribution of an affluent total GNP" (235). The first type was solved by "the triumphs of technology"; the third, "which still does remain a challenge," is relegated to the anomalies in the last part of the book. Keynesianism comes to the rescue on Number Two: "But only with the development of modern income analysis has 'poverty midst plenty'—like that of 1929-1939—been rendered obsolete" (235).

There is "something" to the distinction between Num-
bers 1 and 2 and 3; capitalism has developed the forces of production sufficiently to eradicate hunger and to create the material conditions of a new type of society. But despite the "obsolescence" of this type of poverty, it continues to exist in the "advanced Western world" not to speak of the "underdeveloped" countries. Secondly, S does not appear to be aware of the fact that not only did Keynesianism have to come to grips with "poverty midst plenty," but that this phenomenon—the polarization of wealth—was the creation of capitalism. And thirdly, there is no recognition of the relation between "bad purchasing-power behavior" and "bad distribution" of income; yet there is no solution of one without the other, and there is no solution of either within capitalism.

2) Unemployment Since the origins of Keynesianism lay in the political need to avert "revolutionary changes" let us examine its "record" on unemployment.

Charles L. Schultze of the Brookings Institution, whose view of the accomplishments of Keynesianism closely resembles that of S, has defended the Keynesians against various attacks of "irrelevancy" and "obsoleteness" leveled at them from within and without the fold:

The current disenchantment, particularly among the young, with the optimistic, problem-solving approach to social issues that characterized the 1960s not surprisingly has rubbed off on economics. . . . Many members of the economics profession now question the relevance and meaning of the fundamental assumptions underlying the economics that is currently taught and practiced. . . .

One of the major counts in the indictment is that Keynesian economics is incapable of handling the central policy issue of the era: how to make full employment compatible with reasonable price stability. Yet, in the twenty-five years since the Second World War . . . unemployment in no year averaged more than 7 per cent, compared with the 1930s, during which unemployment never fell below 14 per cent. . . . What we now label a failure of theory and policy has been a roaring success by pre-Keynesian standards.40
Yes, Schultze says, maybe we do have too much unemployment today, but 7 percent is better than 14, so what are you complaining about? And this reasoning is not without its logic, for in an important sense the mere fact that capitalism continues to exist at all indicates "success." But success for whom? Obviously for those who profit from it. And at what cost has this success been achieved? True, the Keynesian policies have proved that the dimensions of the stagnation of the 1930s can be avoided, but they have merely delayed and/or altered the phenomenal forms of the basic contradictions of capitalism. It is one of our major theses that the success of Keynesian policies is based on this ability to delay and alter the form in which crises appear. Bourgeois economics itself, of course, implicitly admits this when it speaks of the impossibility, under "modern" conditions, of maintaining full employment, price stability, and growth simultaneously. But one can see these same shifts and delays in the emergence of many so-called structural problems relating to unemployment and production. Bourgeois economists speak of structural unemployment with respect to people with the "wrong" skills living in "wrong" areas. Entire areas and industrial branches also suffer from these structural problems. Instead of long-term depressions we now enjoy chronic underutilization of capacity, etc.; end effects on international competitiveness are also to be seen.

There seems to be no "theoretical" reason for taking the 1930s as an absolute standard for judging "progress." The basis for this is purely pragmatic—i.e., at earlier, lower levels of unemployment the threat of "revolutionary" changes did not appear so overwhelming.

Thus what Keynesianism has accomplished is to restore pre-1930 rates of unemployment (while of course removing much of the "flexibility" associated with the self-healing powers of the industrial cycle). In fact, the neoclassical synthesis has merely set out to reconstruct certain aspects of pre-1930s capitalism. Keynesianism may be a political response to a perceived threat, but coherent anticapitalist movements antedate the 1930s, so that even the partial re-
storation of pre-1930s capitalism hardly makes the modern mixed economy immune to revolutionary change.

Not all economists, of course, share Schultze's optimism; particularly in the wake of the 1969-72 recession and the high level of unemployment, many economists began to express serious doubts about the effectiveness of the traditional Keynesian antiunemployment techniques. Thus a recent U.S. Labor Department publication has come to the following realistic-pessimistic conclusions.

Our postwar track record during peacetime is certainly not encouraging in this regard—namely, an average unemployment rate of 5.1 percent, with unemployment at or below 4.5 percent in only 22 out of 64 quarters. . . . Thus we face a very real danger that the 1970's may turn out to be a decade of considerable economic slack, with only occasional periods of full employment. (T. Aldrich Finegan, "Labor Force Growth and the Return to Full Employment," in *Monthly Labor Review*, XCV/2 [February, 1972], 37.)

The 1972 Annual Report of the Council of Economic Advisers which, on the basis of structural changes of the labor force, strongly implies the junking of the old 4-percent level as a target, describes the search for a full-employment level in rather unorthodox terms, which clearly derive from a policy decision in the Nixon Administration to attempt to get away from the lower level of unemployment:

Efforts were made when the 1946 Act was passed and shortly thereafter to estimate the normal size of the transitional group. This was difficult because the country had not been at anything like peacetime full employment since 1929 and relevant data were spotty. However, estimates converged on 4 percent as the proportion of the labor force that would be unemployed at "full" employment. This highly uncertain estimate became solidified over the ensuing years as a result of repetition, even though the 4 percent rate was seldom achieved.41

The Kennedy Administration, while setting 4 percent as a target,42 saw this as an intermediate goal on the way to an even lower level. Thus in an interview in 1966, Arthur
Ross, Bureau of Labor Statistics Commissioner under Johnson, became involved in the following discussion:

Q. When the unemployment rate was hoving around 6% a few years back, most economists felt that a four percent rate was an achievable target to strive for. Now that the rate has dropped below the hallowed 4 percent goal, what would you say is a Utopian unemployment rate since there will always be some people in transit from one job to another? A. . . . I would guess that there is an irreducible unemployment minimum somewhere between two and three percent.43

The war in Vietnam did bring the unemployment rate to below 4 percent for several years, but realistic economists understood at the time that no lasting solution had been found:

The weapons of destruction in the war call on the very skills and industries which faced structural decline, namely production workers in durable goods industries. It is no accident that in the third quarter of 1965 fabricated metals, electrical equipment, machinery and chemicals showed significant employment increases, while transportation equipment began to revive. The use of expanded draft calls rather than reliance on the Reserves . . . worked to lower youth unemployment. . . . Thus the Vietnam War merely postpones the disquieting question of whether the US will be able to face up to the problems of structural change and adequate demand in the context of a peaceful world.44

This is the question Keynesians, apparently undaunted by the constant rebuffs reality has dealt them, have been asking for thirty years.

With the winding down of U.S. military involvement in Vietnam, unemployment promptly rose to about 5 million in 1971, the highest figure since 1941, and brought a measure of realism even to Administration politicians. Thus then Treasury Secretary Connally stated: “We talk in terms of a norm of unemployment being 4 per cent. This is a myth. . . . 4 per cent is not the norm. We have never achieved it except in wartime.”45
With the prospect of a permanent unemployment rate of more than 4 percent, sophisticated Keynesians were beginning to advocate a return to plain old government make-work programs. But obviously the problem goes beyond merely adding some hundreds of thousands of jobs. A Congressional subcommittee on unemployment, using an index prepared by former Secretary of Labor Wirtz in 1966, calculated a subemployment rate of 31 percent for sixty urban-poverty areas in 1970; this rate measures the officially unemployed plus part-time workers who want to work full time—so-called discouraged workers who have given up looking for a job, and full-time workers receiving wages below the poverty level. But the threat of unemployment is not limited to a small group; even at so-called 4 percent full employment, one out of every five male workers between the ages of 25 and 44 will be unemployed; with unemployment at 6 percent, as it was in 1971, three out of ten will have no work. For those between the ages of 16 and 19, a general unemployment rate of 5-6 percent means two “spells” of unemployment a year per worker. Rates for women between the ages of 25 and 44 are approximately twice as high as for their male counterparts. To date no specific response to the social destructiveness brought on by mass unemployment among certain groups has been found.

Several West European capitalist countries have in fact managed to reduce unemployment to pre-1929 levels. However, their “success” was due not so much to Keynesian policies as to the enormous capital destruction of World War II, which created the conditions for rapid capital accumulation. To the extent that direct state intervention rather than the spontaneous workings of rapid capital accumulation fostered the absorption of the industrial reserve army, this has frequently happened under the pressure of the working class, and has been accompanied by explicit reminders of the dire consequences of widespread unemployment. Thus a 1964 West German official document spoke of “Germany’s fate of 1933” as causally related to the “inability of the Weimar Republic to master unemploy-
ment,” and warned that “in the light of the East-West conflict’ public policy must ensure that there is no risk of any similar failure.” And finally it must be noted that the “free movement of labor” within the Common Market has enabled some countries “literally to export their unemployment”:

When Germany had a recession in 1967, for example, its unemployment went up to an adjusted 260,000 from only 70,000 the year before. But the total would have been much greater if it hadn’t been for 395,000 workers returning to homes in other countries in 1967. . . . The outflow consisted of 198,000 to Italy, 75,000 to Spain, 70,000 to Greece and 52,000 to Turkey.

In the absence of widespread solidarity between the domestic and foreign workers, this development can have favorable short-run effects on the political situation of the domestic bourgeoisie.

In North America, unemployment rates have been considerably and consistently higher than in Western Europe. Canada’s unemployment level has surpassed that of the years between World War I and the onset of the Great Depression. In view of the overwhelming “investment presence of U.S. capital in Canada,” these trends are to some degree linked to those in the U.S. At the same time Canada sports capitalistically underdeveloped areas in Quebec and the Atlantic provinces which often experience unemployment rates in excess of 10 percent. And since the main burden of unemployment is borne by the French-Canadian minority, this also has the effect of transforming the contradictions of capitalism into a “nationalities” problem.

As for the United States, a comparison of unemployment rates during this period with those of the first three decades of this century shows that the situation has not improved. Despite unparalleled “peacetime” military expenditures and an enormous permanent standing army, only Korea and Vietnam managed to bring the unemployment rate to below 4 percent. Thus Keynesian policies have barely brought us back to the not-so-golden days of the
first three decades of our century. A glance at the rates of capacity utilization also indicates that the "success" has left something to be desired; in fact, with one quarter of U.S. manufacturing capacity "idle" in 1971, postwar American capitalism reached a low point.51

In sum then we can say that although a depression of the magnitude of the 1930s has obviously been avoided in the U.S. and Canada, the "paradox of poverty midst plenty" has hardly been resolved.

51 "Incomes policies" as the heavy hand of the Keynesian state The periodic manifestations of the contradictions which Keynesian policies have managed to delay or shift have at times occasioned the need for more decisive action on the part of the state. Such impatience was expressed by Business Week early in 1972 after unprecedented postwar government deficits had failed to bring about a "robust up-swing":

If the traditional weapon of deficit spending cannot give business a lift, the government may not be able to deliver on the commitment of the Employment Act of 1946 to promote maximum employment and production. Indeed, some observers are already saying that the nation is back where it was when the state of business, like the weather, was considered beyond human influence.52

In the summer of 1971, Arthur Burns hinted at the same fear when, among other things, he mentioned the following factors involved in the high rates of unemployment and inflation:

The increased militancy of workers, whether union or nonunion and whether in private or public service, has probably led to a wider diffusion of excessive wage rate increases through the economy. I cannot help but wonder, also, whether our recent experience with wage settlements in unionized industries may not reflect a gradual shift in the balance of power at the bargaining table.

Labor seems to have become more insistent, more vigorous, and more confident in pursuing its demands, while resistance
of businessmen to these demands appears to have weakened. . . . More recently, the balance of power—so important to the outcome of wage bargaining—may have been influenced by expansion in the public welfare programs which can be called upon to help sustain a striking employee, valid though these programs may be on social grounds. . . . In my judgment . . . the present inflation in the midst of substantial unemployment poses a problem that traditional monetary and fiscal remedies cannot solve as quickly as the national interest demands. That is what has led me, on various occasions, to urge additional governmental actions involving wages and prices. . . .

These developments led to the introduction of a so-called wage-price freeze in August, 1971, policies that resemble those earlier tried in West European countries, particularly Britain, which unlike Italy and West Germany, did not have a large reserve army of unemployed to depress wages and exert a "disciplinary" influence on the workers. Under these conditions direct state intervention to compensate for the absence of a reserve army becomes necessary. The relationship between these direct measures and traditional Keynesian policy has been described as follows:

Postwar commitments to a national full employment policy have strengthened the employee side in wage bargaining, and businesses feel freer to pass on increased costs in the form of price increases because the government is committed to maintain the necessary demand . . . to avoid greater unemployment of economic resources. An incomes policy may thus be viewed as a means to offset this change by strengthening the employer's side in wage decisions and the consumer's side in price decisions. . . . If the policy works through channels that curb money wage rates in relation to prices, and the resulting lower real wage rate per unit of labor makes it attractive to hire more labor, a higher level of employment would occur at a given price level. . . . Central to Keynes' argument for reducing high unemployment levels was a reduction in the real wage rate which could be accomplished by an increase in prices in relation to money wage rates or a fall of money wage rates in relation to prices. This argument can be used in support of an incomes policy.
If for no other reason, the unimpeded continuation of such an inflationary course would find limits in the profitability constraints of the world market, which in turn find expression in the inability to harmonize the "goals" of full employment, economic growth, price stability, and external payments equilibrium. But apart from reasons of world-market competitiveness, domestic considerations also militate against the continuation of Keynesian profit-inflation beyond a certain period of time:

But once consumers wake up to what is happening and offset the rise in prices through increased wages, the process of profit inflation is at an end. And in modern conditions, with strong labour bargaining power through trade unions, and an increased awareness of the inflationary process, it is much harder to be sure of achieving the constructive benefits of inflation. . . . And once the different sections of the community can contract out of inflation, inflation loses its point—which is precisely to shift income from one section of the community to another.

A modern community is too aware of these things to allow the monetary sleight of hand to continue for long.\(^5\)

The transition from the traditional Keynesian policies to such measures as "incomes policies," especially in the 1960s, marks the transition from the period of "stormy" accumulation in the 1950s and 1960s to that of harvesting the contradictory results in the form of overproduction and overaccumulation of capital; while the individual capital can react to this process within the factory by increasing the intensity of labor, etc., on the total social level, the state intervenes by centralizing the downwards pressure on wages. That recourse to such policies on a long-term basis threatens the smooth workings of the mixed economy is implicitly admitted by S when he says that "they cannot themselves take the place of stabilizing policies of aggregate demand" (8th ed., p. 815) during a period in which the neoclassical synthesis has proved inadequate. The shift to more open state intervention in the process of capital accumulation is characterized by a fundamental contradic-
tion—namely that it presupposes class cooperation at a time when workers' living and working conditions are being undermined. Although at different times in different countries it may prove possible for the state to maneuver central trade unions into various degrees of acceptance of "income policies" by offering to "compromise" in other areas, this is a risky move, for it can lead to significant "labor unrest," as recent developments in Britain have shown.

A Brookings Institution study states that "a freeze that continues for any significant time does place a burden on labor since the increased productivity of labor leads to higher profits rather than higher wages."\(^{56}\) But the Federal Government, appalled by a poll indicating that "nearly 85 per cent of all union members think stockholders rather than employees are the major beneficiaries of productivity gains" plans "a major educational effort, including multimedia advertisements to be supported by $10 million of space and time contributed by the Advertising Council... to overcome this kind of misunderstanding."\(^{57}\)

II / THE THEORETICAL BACKGROUND OF KEYNESIANISM

Having gained an overview of the practical origins of Keynesianism, let us proceed to an examination of the theoretical context in which the "Keynes Revolution" originated. Toward this end, we will touch upon the controversies among the major bourgeois economists at the beginning of the nineteenth century. Since the dominant theories also formed the basis upon which practical policies were based in the 1930s, such a review of the historical development of economic theory cannot remain purely academic. S's conscious failure to place the rise of Keynesianism in any historical and theoretical context weakens his presentation (ix, 845).

A / SAY'S LAW AND RICARDO

Most discussions of Keynes' theoretical "revolution" em-
phasize his opposition to that tradition of bourgeois political economy which denied the possibility of general crises of overproduction. First formulated during the first decade of the nineteenth century and known as Say’s Law, it, along with many other dogmas of bourgeois political economy, enjoyed the luxury of being impervious to empirical refutation.

Although the persistent industrial cycle gave food for thought, the sort of practical answer to the problem of overproduction crises furnished in the 1930s and which Keynes tried to conceptualize were not a political necessity prior to that time. That is to say, since the self-healing powers of the crisis phase of the industrial cycle were recognized, and since during the nineteenth century the “social dangers” released by the crisis had not yet reached critical proportions, the practical demands for dealing with the crisis had also not yet created the conditions favorable to the construction of a theory to explain the crisis.

Keynes himself was quite conscious of his position vis-à-vis the classical tradition:

From the time of Say and Ricardo the classical economists have taught that supply creates its own demand. . . . Thus Say’s law . . . is equivalent to the proposition that there is no obstacle to full employment. If, however, this is not the true law relating the aggregate demand and supply functions, there is a vitally important chapter of economic theory which remains to be written and without which all discussions concerning the volume of aggregate employment are futile.

But his understanding of the essential differences among the authors within this tradition is wrong. In point of fact by treating Say and Ricardo under one rubric—that is, by ignoring the fact that Ricardo’s adoption of Say’s Law stood in crass contradiction to his otherwise critical theory, whereas Say was a superficial apologist for capitalism—Keynes is able to obscure the fact that despite his attempt to deal theoretically with crises which could no longer be ignored, he has taken a theoretical step backward vis-à-vis Ricardo.
The manner in which Keynes seeks to build up his own critical credibility is revealed in this passage on Ricardian economics:

That it could explain much social injustice and apparent cruelty as an inevitable incident in the scheme of progress, and the attempt to change such things as likely on the whole to do more harm than good, commended it to authority. That it afforded a measure of justification to the free activities of the individual capitalist, attracted to it the support of the dominant social force behind authority.  

In this way Ricardo is transformed into the reactionary defender of capitalism and Keynes by implication into a man of progress. Yet what Keynes here ridicules is precisely Ricardo's greatest achievement—namely, the awareness that the progress of capitalism is accompanied by enormous misery for the working class; and further that—in Ricardo's time at least—production for the sake of production was a historically progressive process. (S [842] misses this point.) What Keynes succeeded in doing was to lend support to the notion of the survival of a capitalism rid of its blemishes at a time when it could no longer be a progressive society even without the inevitable periodic crises. 

Let us keep in mind that in Ricardo's time, capitalist crises originating in the process of production had not yet arisen, so that he was able to explain actual crises on the basis of other, nonfundamental causes. Secondly, despite his inability to grasp the meaning of the overproduction crises in which the contradictions of capitalism explode periodically, Ricardo's understanding of the historical tendency of capitalism was superior to that of his contemporaries, who saw the distribution of income or underconsumption as the cause.

Before taking a closer look at the meaning of Say's Law and its Keynesian refutation, let us continue with our review of Keynes' self-image within the bourgeois political economic tradition. If he misrepresented Say's and Ricardo's positions, we find that with respect to Marx he was simply confused. On the one hand, he ranks Marx with the
monetary crank Silvio Gesell and others in whose "underworlds" Malthus' notion of effective demand "could . . . live on furtively."62 And on the other, he ascribes "an acceptance of the classical hypotheses" to Marx;63 in a letter to George Bernard Shaw written before the publication of the General Theory (January 1, 1935), he speaks of the "final upshot" of his book in these terms: "There will be a great change, and, in particular, the Ricardian foundations of Marxism will be knocked away."64

If it was Keynes' concern to find "the answer to Marxism,"65 he should at least have determined where Marx agreed and disagreed with Ricardo before going about knocking away Marx's Ricardian foundations, for Marx criticized Ricardo's acceptance of Say's Law in great detail. And since Marx had offered this critique two decades before Keynes' birth, Keynes in fact neither "revolutionized economic theory" nor knocked away the foundations of Marxism.

Ricardo had asserted that since supply creates its own demand, general overproduction was not possible; that money was merely a means, with no independent force, acting on the exchange; that partial overproduction or overproduction in some goods was possible, but that this would lead to price changes and shifting of capital in and out of branches, so that equilibrium would reappear.66

Although Say and Ricardo clearly presuppose a condition of barter, adherents of Say's Law occasionally ignored this supposition, and since this aspect of the controversy becomes a crucial and often misunderstood part of the Marxist critique, it should be pointed out that the bourgeois critics of the barter supposition have little in common with Marx. Marx offered a detailed critique of Ricardo's assumption of barter. He considered economists like John Stuart Mill, who sought to explain crises on the basis of the possibility of crises in the abstract, to be no better than Say and Ricardo. He felt that reference to the separation of sale and purchase does not explain why crises actually take place, but only that they can take place, and that the reliance on the most abstract or elementary form of crises for explana-
tory purposes was a tautology, tantamount to explaining crises through crises.67

Keynes' approach to Say's Law is essentially superficial, since his doctrine of effective demand (whether in the form of consumption or of the dichotomy between savings and investment) is rooted in the withholding of purchasing power from the market: "Contemporary thought is still deeply steeped in the notion that if people do not spend their money in one way they will spend it in another."68 This notion that in fact "people" do not spend all their money rests upon certain psychological moments to which Keynes ascribes universal validity in recorded economic history. Lack of effective demand as an explanation of capitalist crises is either a tautology or no explanation whatsoever insofar as crises can be explained even under the conditions of Say's Law.

In addition to the three aspects of Say's Law mentioned above another point is perhaps the most important in our context of Keynesianism. This relates to Ricardo's assertion of unlimited possibilities for the accumulation of capital:

There cannot . . . be accumulated in a country any amount of capital which cannot be employed productively until wages rise so high in consequence of the rise of necessaries, and so little consequently remains for the profits of stock, that the motive for accumulation ceases. While the profits of stock are high, men will have a motive to accumulate. Whilst a man has any wished-for gratification unsupplied, he will have a demand for more commodities; and it will be an effectual demand while he has any new value to offer in exchange for them. . . .

It follows then . . . that there is no limit to demand—no limit to the employment of capital while it yields any profit, and that, however abundant capital may become, there is no other adequate reason for a fall of profit but a rise of wages. . . .69

Or as John Stuart Mill phrased it: "So long as there remain any persons not possessed, we do not say of subsistence, but of the most refined luxuries, and who would work to possess them, there is employment for capital. . . ."70 Here we are dealing with two important though separate issues:
that of “full employment”—at least tendentially—of capital and labor, and that of the cause of a possible impediment to that uninterrupted progress. With respect to the latter, Ricardo believed that only rising wages could halt the accumulation of capital by cutting into profits. Although his explanation is merely of historical interest as far as the theory Keynes was attacking is concerned, the need to reduce wages as the basic solution to the overcoming of stagnation was at the crux of the theoretical and practical debate into which Keynes interjected himself.

The first of the two issues mentioned earlier deals with stagnation and unemployment. One of Keynes’ chief charges against Ricardo is related to Ricardo’s lack of concern with “the volume of the available resources, in the sense of the size of the employable population, the extent of natural wealth and the accumulated capital equipment. . . .” Further, he chides Ricardo for being exclusively concerned with “the distribution of a given volume of employed resources.” This charge can be met in two ways. First, the virtue of Ricardo’s emphasis on distribution consists precisely in its insistence on concentrating attention on the specific features of capitalism. Secondly, inasmuch as Ricardo’s interest in capital accumulation (which he saw as identical with increased production) was paramount, it is hardly justified to criticize him for a lack of interest in the quantity of wealth.

The rational kernel of Keynes’ charges, however, lies in the practical realm; for what is really bothering him is Ricardo’s disdain for discussions of gross income and what Keynes believed to be its connection to total employment. Ricardo’s emphasis on profits or net income (equaling rent plus interest plus profits) rather than gross (or national) income stemmed from his proper understanding of profit as the central category of capitalist production; whether the other component of national income, namely wages, increased in the process of rising net income was irrelevant, and from Ricardo’s theoretical vantage point—which mistakenly equated every wage increase with a diminution of profits—even harmful. As far as Ricardo’s lack of interest in
total employment is concerned, this had not yet become the explosive political issue that confronted Keynes in the 1930s.

When we say that Keynes concentrated on national income because "it is the quantity which is causally significant for employment,"73 we do not mean to imply that he was unaware of the fundamental role of profit-production in capitalism. The crucial point here relates to his understanding of the social nature of profit, of how it is produced in capitalism. Keynes' view of profits as being determined by effective demand within the sphere of circulation plays a key role in the formulation of his policies.

The "paradoxes" growing out of the "modern" attempt to regulate employment within an economy in which labor continues to be the hidden regulator, that is to say in which human activity—labor—reveals itself only indirectly through the value categories of capitalism (commodity, value, price, money, capital, profit, interest, wages, etc.) are unintentionally reflected in the following passage:

The unemployment rate . . . is one of the most widely watched economic indicators. And yet, although employment draws constant attention in the formulation of economic policy, monetary and fiscal policy tools are designed basically to speed or slow the rate of change in business activity overall—usually by influencing private spending decisions. Outside of direct Government intervention in the labor market, such as special manpower programs, economic policy cannot directly affect the level of unemployment.74

In fact, to the extent that Keynesian policies are successful in contributing to more rapid capital accumulation, they merely tend to exacerbate the problem.

Allegedly one of the most important aspects of the Keynesian "revolution" is its reuniting of value and price theory, of the individual and the aggregate view, of the private and social "viewpoint"; in our context here this means overcoming "the divergence between the principles of social and private accounting" which supposedly "holds the clue to the inconsistencies of so-called 'sound' fi-
ance." But if there are any inconsistencies here, they are to be found in the attempt to foist "accounting principles" upon the capitalist mode of production fundamentally alien to it. Although the Keynesians may be able to stave off political rebellion by delaying and shifting the forms of appearance of contradictions, Ricardo was correct in denying the subordination of profit to national income, and the Keynesians have misunderstood the laws of motion of capitalism if they believe that subordination can be reversed by governmental decree.

In the third edition of his *Principles*, Ricardo held "that an increase of the net produce of a country is compatible with a diminution of the gross produce." In the abstract one might say that his reason for recognizing the rightness of this view lay in his understanding of capital as the dominant force in capitalist society: state intervention to increase national income without any immediate concern for profits seemed senseless to him. This is not to say that Ricardo would necessarily reject methods to keep the unemployed "quiet" at a minimum of cost. The empirical problem had not yet arisen, although Ricardo admitted the possibility and even desirability of state intervention under certain conditions. But the point here is that the practical aspect of Keynesianism is hardly revolutionary, whereas its theory is rooted in a false conception of value creation and the functioning of the components of national income.

In completing this discussion we must mention that Ricardo entertained the possibility of diminishing productive employment. He voiced this view in connection with a chapter on machinery added to the third edition of his *Principles*, and arrives at the conclusion "that the opinion entertained by the labouring class, that the employment of machinery is frequently detrimental to their interests . . . is conformable to the correct principles of political economy." The statement that "by investing part of a capital in improved machinery there will be a diminution in the progressive demand for labor," or that an increase in capital will be followed by an increased demand for labor that "will be in a diminishing ratio" expresses the crux of
his reasoning. Ricardo does not, however, despair, for although the demand for labor has diminished, and the value of labor power (wages) has been cheapened by machine-produced commodities, the now increased surplus value (capitalist profits) can be used to create new capitals (accumulation) or to increase the "demand for menial servants."

This point illustrates both the similarities and differences between Ricardo and Malthus. Whereas Ricardo commits himself to the continued use of "labor-saving" machinery despite its effects, Malthus indicates that he would join Sismondi and Owen in "deprecating it as a great misfortune" if the effects were those predicted by Ricardo. On the other hand, although Ricardo demonstrates that the process of capital accumulation is accompanied by, or rather itself creates, increasing poverty and degradation, he is as little aware as Malthus that this is a peculiar societal mode of wealth creation—that is to say, that this process is not a "technological" fact but rather the peculiar capitalist expression of increasing the productiveness of labor.

Marx, alive to the possibilities of "revolutionary change" growing out of unemployment which Keynes so feared, analyzed this process thus:

A development of the productive forces which diminished the absolute number of workers, i.e., enabled in fact a nation to carry out its total production in a lesser part of time, would bring about revolution because it would withdraw the majority of the population from circulation. In this appears again the specific limit of capitalist production and the fact that it is in no way an absolute form for the development of the productive forces and the creation of wealth, but rather collides with this latter at a certain point.

The current labeling of this social process as "technological unemployment" testifies to the persistence with which this process has been distorted into a "neutral" one. Keynes himself offers a particularly blatant example of the inability to recognize the societal form that a particular stage of productiveness can assume:
We are being afflicted with a new disease of which some readers may not yet have heard the name, but of which they will hear a great deal in the years to come—namely, technological unemployment. This means unemployment due to our discovery of means of economising the use of labour outrunning the pace at which we can find new uses for labour.

But this is only a temporary phase of maladjustment. All this means in the long run that mankind is solving its economic problem. Keynes is so absorbed in the technological aspect, or rather believes that technology has so absorbed capitalism, that in the greatest crisis of capitalism he can equate mass unemployment with long-run success within the capitalist mode of production; in other words, although it is true that such crises are expressions of increasing productiveness of labor which cannot be used to satisfy the wants of the workers and point to the need for a mode of production which "solves mankind's economic problem," Keynes insists on seeing this solution within the framework of a society that continues to give birth to such crises.

The central point here is that the capitalist form of the increasing productiveness of labor is expressed by a given amount of variable capital's ability to put into motion an ever larger amount of constant capital; this relation, which Marx called the organic composition of capital, rises with the accumulation of capital, which means that a given amount of capital will "employ" fewer workers. This implies the necessity to extract as much surplus labor as possible from as few workers as possible, a process which underlies the tendency for the rate of profit to fall. This increasing productivity does not of course mean that the commodities formerly consumed by the workers displaced by machines have disappeared; it merely means that the capitalists are no longer laying out sufficient variable capital for these workers to buy these commodities with their wages. As Ricardo recognized in a letter to McCulloch (June 30, 1821): 'If machinery could do all the work that labour now does, there would be no demand for labour.
Nobody would be entitled to consume any thing who was not a capitalist, and who could not buy or hire a machine."\textsuperscript{913} Taking this process of development one step further, Marx pointed out that revolutionizing the social relationship between workers and capitalists, of the capitalist mode of production, would alter this state of affairs:

The workmen, if domineering, if allowed to produce for themselves, would only soon, and without any great exertion, bring up the capital (to use a phrase of the econ\textregistered omic vulgarians) up \textsuperscript{sic} to the standard of their wants. This is the very big difference: Whether the available means of production confront them as capital, and therefore can be applied by them \textit{only} as far as necessary to the surplus value and surplus produce for their employers, whether these means of production employ \textit{them}, or whether they, as subjects, apply the means of production— in the accusative—to create wealth for themselves.\textsuperscript{88}

That the specter of mankind's failure to solve its economic problems within the capitalist mode of production continues to haunt non-Marxists despite the Keynesian revolution was made clear in a study of unemployment published during the height of the Vietnam War that realistically predicted a rise in unemployment once the war was over.\textsuperscript{89}

\textbf{B / MALTHUS}

Keynes believed that "in the later phase of Malthus the notion of the insufficiency of effective demand takes a definite place as a scientific explanation of unemployment," but that afterward "the great puzzle of Effective Demand . . . vanished from economic literature."\textsuperscript{90} There are definite similarities between Keynes' and Malthus' theories. In this context, it might be instructive to look at some of the major points of the debate carried on by Malthus and Ricardo in the early nineteenth century. Despite their sharp differences on the causes of crises, Ricardo and Malthus held a common view with respect to the working class. Both believed that it was not advisable that workers appropriate the whole of the product they produced, but rather
that the capitalists should receive large enough revenues to ensure savings that could be reconverted into productive capital, which in turn would allow them to expand their production of wealth. Thus Malthus clearly sets forth the production of surplus value as the end of capitalist production: “All labour . . . might be stated to be productive of value to the amount of value paid for it, and in proportion to the degree in which the produce of the different kinds of labour, when sold at the price of free competition, exceeds in value the price of the labour employed upon them.”91 And he returns to this point: “To justify the employment of capital, there must be demand for the produce of it, beyond that which may be created by the demand of the workmen employed.”92

This same notion, namely that capitalism is not oriented toward the satisfaction of the needs of the direct producers, that it is not even oriented toward any sort of consumption, also plays an important role in Keynes, although it contradicts his assertions that consumption is in fact the end of all economic activity. Both Keynes and Malthus contend that the working class chooses to consume less than it might. And Ricardo was no less insistent that the working class must not retain all of its product. But beyond this common belief, Ricardo and Malthus disagreed over what was to be done with part of the surplus value. Whereas Ricardo was a supporter of the industrial bourgeoisie, Malthus, a spokesman for landlords, maintained that part of the surplus value had to be realized through sale to a third class of unproductive consumers. In contrast to Ricardo’s uninhibited defense of capitalist progress, Malthus’ position was historically ambivalent. The value-theoretical foundations of his economic system also formed the crux of his debate with Ricardo concerning Say’s Law:

The inadequacy of effective demand which, in Malthus’ view, made for the general glut, was fundamentally an inadequacy built into his own theoretical system. This is because of his very definition of value, which he measured by the labor which commodities could command, not as with Ricardo, by the labor which commodities embodied. According to Malthus’ definition,
aggregate demand (subsistence wages, or labor “commanded”) is defined in terms of the labor contained in commodities, and aggregate supply in terms of this quantity plus the surplus, or profit, created in production. Thus, given Malthus’ particular theory of value, Say’s Law could not hold, and, as Ricardo finally pointed out, Malthus’ debates with Ricardo could lead nowhere because they started from different premises.93

Malthus explained profit as arising in the sphere of circulation—“profit upon alienation” (a theory that predates Malthus); profit arises when capitalists mark up their prices (this in part is due to Malthus’ confusion of commodity and capital, value and self-expansion of value, for he incorporated the definition of profit into that of value) while paying the workers less than they produced (or “selling back” to them less than they produced). But at some point it becomes clear that profit cannot result from all the capitalists getting together to raise prices, and to this end Malthus introduces a class that would buy without selling, and thus without withdrawing the profit again. But this requires that these consumers not be producers yet represent effective demand:

There must therefore be a considerable class of other consumers, or the mercantile classes could not continue extending their concerns and realizing their profits. In this class the landlords no doubt stand pre-eminent; but if the powers of production among capitalists are considerable, the consumption of the landlords, in addition to that of the capitalists themselves and of their workmen, may still be insufficient to keep up and increase the exchangeable value of the whole produce. . . .94

To supplement the effective demand of the landlords, Malthus includes the former’s menial servants and the unproductive consumers supported by taxes.95

Malthus’ recommendations with respect to letting the state compensate for failing effective demand are very similar to contemporary Keynesian policies. However, the shift of class interests makes for an essential social difference, for now it is the industrial bourgeoisie, threatened with ob-
solescence, which is forced to come to the defense of the "old" society. In this context it would be interesting to see how Keynesians assess Malthus' contribution to the question of effective demand.

Alvin Hansen, a leading American Keynesian, discusses one of Malthus' prescriptions for remedying deficient effective demand—namely "the employment of individuals in personal services, or the maintenance of an adequate proportion of consumers not directly productive of material objects'; in other words, the development of tertiary employment.' Although Malthus distinguished these workers from others because they did not make material objects, according to Hansen, "a more useful classification is primary, secondary and tertiary production." Hansen then applies Malthus' insights to the modern words:

The history of all progressive countries reveals how sound Malthus was in his emphasis on the importance of an expansion of the service industries. As per capita productivity has increased, as standards of living have risen everywhere, a larger and larger proportion of the labor force are employed in the service industries, both public and private. Malthus, to be sure, had a limited conception of tertiary industries. . . . His "personal services" and other service industry activities relate for the most part to the comfort and living standards of the middle and upper classes. But he hoped for a sufficiently wide diffusion of property and income so that this group would be a fairly numerous one.97

This attempt to enlist Malthus in the ranks of present-day Keynesians rests on a misinterpretation of Malthus, the result of the failure of contemporary bourgeois economics to understand the peculiar societal qualities of capitalism. Hansen obviously is unaware of the difference between the self-expansion of value consequent upon the capitalist use of labor in the process of production and the use of labor "services" for the production of use values. The former is peculiar to capitalism, but the latter, which also existed in feudalism, appears in capitalism as a phenomenon which does not per se characterize classes. That is to say, one
does not have to be a capitalist to purchase the labor "services" of domestic workers, although relatively few members of the working class could afford such a purchase. What is important here is that the consumer-domestic worker relationship is not a capitalistic one, since it is not directed at the production of surplus value.

Bourgeois economics may no longer recognize the presence of such fundamental differences in capitalism, and Malthus, to be sure, did not foresee the development of "service industries," but the type of industry Hansen is talking about not only does not correspond to Malthus' concept, it directly contradicts the purposes he set forth with respect to these services. The activities Malthus had in mind were not productive of surplus value, since the point he was making was that the workers could never buy back the entire value of their product. Malthus' conception of personal services corresponded to his understanding of the origin of crises. Whereas in Malthus' view the unproductive consumers merely were realizing surplus value through expending redistributed incomes, Hansen and other Keynesians believe that they create value and income. The inability of Keynesians to grasp such fundamental distinctions raises serious questions about their analysis of and proposed cures for capitalist crises.

Ricardo may have arrived at his insight into the effects of machinery on the working class too late to make it part of his theoretical systems, still his reply to Malthus is more than simply a recourse to Say's Law. The debate between the two was complicated inasmuch as each saw one aspect of the contradictory nature of capitalism without understanding the whole. Although Malthus believed that the contradictions of capitalist production found expression in the sphere of distribution, he severed the link to the source in the sphere of production. Ricardo, partly because he was blinded by his erroneous theory of the falling rate of profit and by the fact that in his lifetime he never experienced a serious purely capitalist crisis, fixed his sights on the speed of capital accumulation, thus neglecting the possibility of crises of overproduction and overaccumulation.
Because Ricardo formulated the reason for stagnation in an exaggerated fashion—"the people" have a great deal of effective demand which they refuse to spend—he found it difficult to take the doctrine seriously. Yet Keynes and many of his adherents still see the origins of stagnation in this light. What this theory—whether in its Malthusian or Keynesian form—does is to posit the surface phenomena during the low point of a crisis as its cause. Thus the source of stagnation is said to be insufficient demand: if only "the people" would spend their money.

It is true that the state can force or encourage people to part with money (in the last analysis through taxation or inflation). But what then? If the only purpose of such state intervention is to decrease unemployment, then Ricardo would certainly not deny its efficacy, for he himself pointed to unproductive employment as a way of absorbing those replaced by machines. Nor in fact would Marx contest this possibility. According to Marx, the relationship between capital and revenue fixes the ratio and the proportional growth of both classes as determined by the proportion in which increasing profits are transformed into capital or spent as revenue.

If one shifts the unproductive expenditures from the individual to the aggregate capitalist (the state), one can see the development which Marx understood as an inherent tendency in capitalism; however, in keeping with the increased need for protecting capital from its own contradictions, such state employment has assumed new forms.

But Malthusian or Keynesian theory does not consider the mere absorption of unemployment the sole objective; the raising of profits from the stagnation level must also be assured, and it is here that mere effective demand will fail, for an upswing demands the improved profitability of capital based on the capital destruction, lowering of wages, and increased productivity characteristic of the depression or stagnation phase of the industrial cycle. To some extent state intervention can achieve "progress" here by regulating wage increases and lowering taxes and interest rates. But despite this ability to shorten depression phases, such
policies have proved incapable of impeding the recurrence of the cycle and a renewed onset of stagnation, largely because the policies adopted during the boom phase to prevent "inflationary overheating" (i.e., price stability) serve to reduce profits when the boom could only be maintained by even larger profits. Keynes, unlike Malthus, favored increased production and was not content merely with raising the "propensity to consume."

Thus if one assumes that the Malthusian doctrine, even if correct, was a Sisyphean task, since at best it might prolong the interval between one crisis and the next, one can understand why the Ricardians did not consider it a particularly significant contribution.98

C / MARX'S CRITIQUE OF SAY'S LAW"
Since the Keynesian revolution tends to be celebrated in terms of having overcome the theoretical impasse on the impossibility of crises, it is important that before attempting an analysis of Keynes' critique we examine Marx's refutation of Say's Law which went largely unnoticed by bourgeois economics. However, once the Keynesians began to claim credit for this theoretical advance, they were also forced to come to grips with Marx's overall achievement, though they did not always represent his position adequately. As our point of departure let us consider a statement by a Keynesian familiar with Capital and sympathetic to Marx's theory. In her booklet on Marxist economics, Joan Robinson concludes a chapter on effective demand thus:

Marx evidently failed to realise how much the orthodox theory stands and falls with Say's Law, and set himself the task of discovering a theory of crises which would apply to a world in which Say's Law was fulfilled, as well as the theory which arises when Say's Law is exploded. This dualism implants confusion in Marx's own argument, and, still more, in the arguments of his successors.100

According to Bernice Shoul, this "confusion" derives from the complex methodological structure of Marx's critique of
Say's Law: on the one hand Marx criticizes it for assuming away the commodity nature of exchange in capitalism and thus eliminating by definition the abstract possibility of crisis which lurks in the value form of production, and on the other hand, Marx tried "to demonstrate that the 'law of motion' of capitalist society produces not only a tendency to ultimate stagnation, or breakdown, but crises and business cycles as well, even when the equilibrium conditions of Say's Law are fulfilled."\textsuperscript{101}

Marx's main focus in the critique is on the assumption of barter inherent in Say's Law; with respect to Ricardo's formulation of it, Marx in Chapter 17 of the Theories of Surplus Value says the following.

In order to prove that capitalist production cannot lead to general crises, all conditions and determining forms, all principles and differentiae specificae, in short, capitalist production itself, is denied, and in fact it is proved that if the capitalist mode of production, instead of being a specifically developed, peculiar form of societal production, were a mode of production chronologically prior to its crudest beginnings, then its peculiar antagonisms, contradictions, and hence their eruption in crises would not exist.\textsuperscript{102}

He then proceeds to specify the manner in which Ricardo operated and the consequences of that methodology: in the first place the commodity

in which the opposition of exchange value and value exists, is transformed into mere product (use value) and therefore the exchange of commodities into the bartering of products, mere use values. This is not only going back beyond capitalist production, but even beyond mere commodity production, and the most complicated phenomenon of capitalist production—the world market crisis—is denied outright by denying outright that the product must be commodity, must therefore represent itself as money and must go through the process of metamorphosis. . . . Money is then viewed consistently as a mere mediator of product exchange, not as an essential and necessary form of existence of the commodity which must represent itself as exchange value—universal societal labor. Inasmuch as
the essence of exchange value is erased through the transformation of the commodity into mere use value (product), money can just as easily be denied or rather must be denied as an essential form which in the process of the metamorphosis is an autonomous form vis à vis the original form of the commodity.¹⁰³

As Shoul points out, it is important to grasp the difference between this critique and that offered by certain post-Ricardian economists (such as John Stuart Mill):

lest it be concluded that Marx' opposition to Say's Law was a purely monetary one, and that he considered the structure and disruptions of the monetary system, or the “behavior of money” to be an independent cause of crises. Marx' criticism of Say's Law may be called “monetary criticism” only to the extent that it stresses the difficulties inherent in monetary exchange. But it must be made clear that this “monetary criticism” refers not simply to “unneutral money” (as opposed to the classical “money veil”) but arises from Marx' theory of the dual nature of labor and of the commodity in the capitalist economy.¹⁰⁴

Marx performs this critique with respect to Ricardo's understanding of the nature of money:¹⁰⁵

Money is not only “the medium by which the exchange is effected,” but rather at the same time the medium by which the exchange of produce with produce becomes dissolved into two acts, independent of each other, in time and space. This false conception of money in Ricardo rests on the circumstance that in general he looks only at the quantitative determination of exchange value, namely that it = a certain quantity of labor time, but on the other hand forgets the qualitative determination that the individual labor must represent itself as abstract universal societal labor only through its alienation. (That Ricardo [views] money merely as means of circulation, is the same that he [views] exchange value merely as an evanescent form, in general as something merely formal in bourgeois or capitalist production, which is also the reason why he does not consider the latter a specifically determined mode of production, but rather as the mode of production par excellence.)¹⁰⁶
But these abstract possibilities of crisis grounded in the sphere of simple money circulation are not the explanation of crises, for this sphere often "runs smoothly" without crises. Why these forms of crises at times show their critical sides is not be to discovered from these forms alone. Marx knew that crises took the form of crises of overproduction, but what was necessary was to discover the cause of this phenomenal form. At this point Marx offers the second of his criticisms of the classical theory of the impossibility of crises. The purpose of this aspect of the attack is to show that crises are the result of inadequate profits, regardless of the state of demand; Marx called this process the tendency of the rate of profit to fall. And it is this process that is responsible for the reserve army of unemployed without which we would have neither rapid capital accumulation nor industrial cycles.

It is not our purpose here to offer a detailed exposition of Marx's theory of cycles or crises. We merely have attempted to put forth the central aspect of Marx's critique of the classical formulations of Say's Law so as to place the "revolutionary" nature of Keynes' theories in the proper historical perspective as well as to establish the counterpositions for our critique of Keynesianism.

D / KEYNES' CRITIQUE OF SAY'S LAW
As we have had occasion to remark, Keynes considered Malthus a forerunner as regards the notion of effective demand. In fact, striking similarities in their approach to Say's Law can be found, and to that extent Keynes' theory is subject to the same criticism as Malthus' on effective demand. However, we will attempt to go beyond this.

The "contemporary thought" which "is still deeply steeped in the notion that if people do not spend their money one way they will spend it in another"\textsuperscript{108} is cited by Keynes as an example of the sort of economic thinking that has to be done away with. More specifically, he objects to the assumption that "an act of individual saving inevitably leads to a parallel act of investment,"\textsuperscript{109} and surmising that
such reasoning may be rooted in false analogies to "some kind of non-exchange Robinson Crusoe economy," he then offers this analysis:

Those who think in this way are deceived, nevertheless, by an optical illusion, which makes two essentially different activities appear to be the same. They are fallaciously supposing that there is a nexus which unites decisions to abstain from present consumption with decisions to provide for future consumption; whereas the motives which determine the latter are not linked in any simple way with the motives which determine the former.110

This is the same dichotomy between saving and investment S makes so much of in Chapter 11, which we will discuss at that point. Instead of ferreting out the actual contradictions underlying this alleged dichotomy, Keynes apparently is content with remaining on a descriptive institutional level, for he refers to "our social and business organisation" that "separates financial provision for the future from physical provision for the future so that efforts to secure the former do not necessarily carry the latter with them."111 To the extent that this is true it finds its justification in the capitalist development of the fundamental contradiction between use value and value ("physical" versus "financial" provision). But instead of investigating the source of this phenomenon Keynes limits his argument to the acceptance of this physical-financial dichotomy, on top of which a rather vague and crude psychology is invoked to reinforce the "paradoxical nature of capitalism.

With respect to the psychological explanation of the stagnation denied by Say's Law, Keynes places the proposition that increased aggregate income is not accompanied by an equal increase in aggregate consumption at the center of his doctrine of inadequate effective demand. As this gap widens, full employment will become more and more remote. Here again Keynes makes explicit the political relevance of the gap at this particular juncture:
The richer the community, the wider will tend to be the gap between its actual and its potential production; and therefore the more obvious and outrageous the defects of the economic system.\textsuperscript{112}

As far as Keynes was concerned, this gap was largely due to the consumption habits of the "wealthier members" of capitalist society. "The key to our practical problem," he said, "is to be found in this psychological law."\textsuperscript{113}

Although the Keynesians as well as all other bourgeois economists start out from the assertion that consumption is quite simply the end of production,\textsuperscript{114} they wind up with an entirely different conclusion. One Keynesian summarized the reasoning involved as follows:

In a society characterized by great inequality of wealth and income, the economic ability of the community to consume is limited. The rich have more income than they wish to consume currently and the poor have so little income that their ability to consume is narrowly restricted. As a consequence, there is a sizable potential surplus of resources in excess of what is needed to produce consumers goods. This surplus, if it is to be used at all, must be devoted to producing things that are not to be currently consumed. This production in excess of what is currently consumed is called investment.\textsuperscript{115}

This view of investment conveys the impression that the \textit{raison d'être} of investment is filling the gap between income and consumption in order to maintain full employment.\textsuperscript{116} But it should be obvious that this cannot provide a long-term solution to the problem of effective demand since profitable investment would merely lead to an even greater reproduction of the contradictions Keynes is trying to deal with.

Although the Keynesians do think of investment in this light, they also recognize that the accompanying increase in income will only aggravate "the difficulty of securing equilibrium to-morrow."\textsuperscript{117}
In point of fact, Keynes was not very optimistic about investment filling the gap between consumption and income:

But worse still. Not only is the marginal propensity to consume weaker in a wealthy community, but, owing to its accumulation of capital being already larger, the opportunities for further investment are less attractive unless the rate of interest falls at a sufficiently rapid rate. . . . 118

For Keynes, its scarcity determined the profitability of capital, so that increasing capital accumulation was bound to lead to a decline in its marginal efficiency. 119 Although Keynes does not make this explicit, he seems to imply that in the twentieth century a tendency toward stagnation replaced the cyclical crises of the nineteenth century. At the same time, however, Keynes holds that the “slump” caused by an overabundance of capital can be overcome by the cessation of investment which would contribute to a growing scarcity of capital; he mentions “the interval of time, which will have to elapse before the shortage of capital through use, decay and obsolescence causes a sufficiently obvious scarcity to increase the marginal efficiency.” 120

Waiting out this interval, a period marked by capital destruction and unemployment would however involve the very social upheavals Keynes wished to avoid, and that is why state intervention becomes necessary within the Keynesian framework. Marx sees the social antagonisms released by the periodic fall of the rate of profit as the struggle by the working class against the attempts of capital to counteract the relative diminution of the surplus-value-creating labor vis-à-vis constant capital

by reducing the allotment made to necessary labour and by still more expanding the quantity of surplus labor with regard to the whole labour employed. Hence the highest development of productive power together with the greatest expansion of existing wealth will coincide with depreciation of capital, degradation of the labourer, and a most straightened exhaustion of his vital powers. These contradictions lead to explosions, cata-
clysms, crises, in which by momentaneous suspension of labour and annihilation of a great portion of capital the latter is violently reduced to the point where it can go on... fully employing its productive powers without committing suicide. Yet these regularly recurring catastrophes lead to their repetition on a higher scale, and finally to its violent overthrow.121

Although according to Joan Robinson “the theory of the falling rate of profit is a red herring across the trail, and prevented Marx from running the theory of effective demand to earth,”122 it is not difficult to imagine a “model” without any classes other than workers and capitalists, so that the latter would retain all the surplus value created and would reinvest (accumulate) if conditions of profitability warranted such a “decision.” This is in fact the method Marx developed by temporarily abstracting from the less fundamental problem of realization of surplus value to which Keynes assigned prime significance; for Marx this meant abstracting temporarily from

the real constitution of the society which in no way merely consists of the classes of the laborers and industrial capitalists, where hence consumers and producers are not identical, the former category (whose revenues in part are secondary, derived from profit and wages, not primitive revenues) of the consumers is much wider than the second and therefore the way in which it spends its revenues and the magnitude of the latter produces very great modifications in the economic household and particularly in the process of circulation and reproduction of capital.123

Moreover, a glance at the empirical reality of the process of retransformation of savings of these third classes (as well as those of workers and capitalists as individual consumers/savers) into accumulable productive capital indicates that the fundamental problem does not lie in the sphere of circulation as posited by Keynes’ distinction between “industry” and “finance,” between “physical” and “financial” provision.

This abstraction from more superficial phenomena is not
peculiar to Marx. We can detect a strand of Keynes' thinking, which acknowledges this as the proper methodology without being able to divorce it from the otherwise superficial approach characteristic of effective demand. Keynes makes the expansion of production dependent on (the expectation of) profit by the entrepreneur. Once he has allowed the validity of such reasoning, Keynes forces the implication that effective demand is merely a subordinate relationship.

The question remains why the absence of effective demand is invoked as an explanation of stagnation by Keynes. The reason for this is largely connected with his circulation sphere approach, which seeks the origin of profit in the sale of the output, a particularly ironic method in the case of Keynes since he sought to reunite microeconomic theory with an aggregate view. And although he did reintroduce aggregate categories, he never overcame the tendency to confuse the individual capital in competition with other individual capitals with that of aggregate capital, something he had criticized in his neoclassical predecessors.

But it is this very inability to transcend the point of view of the individual capitalist that makes it impossible to grasp the superficial phenomena of the competitive capitals as expressions of more fundamental aspects of capitalism.

In concluding this discussion of Keynes' theory of effective demand as refutation of Say's Law we would like to repeat that as far as capital is concerned, the "problem" is the outgrowth of surplus value creation and not of realization. This becomes very clear when we consider the two major components of effective demand—the workers' demand for consumption and the capitalists' demand for means of production. When the individual capitalist sells his commodities, i.e., when he changes the commodity form of his capitals into the money form—on the aggregate capital level, money capital at the same time is retransformed into functioning productive capital (some capitalists realize the commodity values of other capitalists by buying
means of production) and the purchase of means of consumption by the working class (following the purchase of their labor power and its use in the sphere of production). But this latter process is in turn dependent on the conditions of profitability, a connection which does not elude the individual capitalist.

Let us look at one last aspect of Keynes' relation to bourgeois economic theory, namely the classical contention that the accumulation of capital can be blocked only by a rise in wages. When he wrote his General Theory, Keynes was dealing with the neoclassical theory that posited wage reductions as the proper method of increasing employment. In entering the discussion, Keynes was reacting to the failure of these practical policies based on the classical and/or neoclassical theories. In this context his principal insight consisted in the view that although wage reductions might prove useful in increasing profits, this traditional method will remain limited in a period of great stagnation, given the enormous amount of unrealized surplus value, which is an obstacle to an upswing.

We must be cautious in our evaluation of the differences between Keynes and his predecessors. Keynes was not in principle opposed to money wage reduction, he merely doubted its efficacy. His acceptance of the marginal productivity theory of wages forms the major link between him and the classical theorists. Where Keynes diverged from his predecessors was on the relation between real wages and money wages. On this point he followed in the footsteps of those classical and neoclassical writers who posited an inverse relation between the number of workers and the size of total real wages—the so-called wages fund. Despite the clear and important similarities on this issue between Keynes and his predecessors the significance of Keynes' position lay precisely in his recognition that even the strategy of "demand management" could not put an end to the stagnating capital accumulation, and he therefore stressed the need for state intervention in the form of public utilization of idle capital and labor.
We have given this brief outline of the rise of Keynesianism because S has failed to provide any background material to prepare the reader for an understanding of Keynesianism as a part of traditional attempts to deal with the critical problems of capitalism. Lacking such an understanding, the reader cannot evaluate the "success" and limits of this newer trend in bourgeois economics, particularly in view of S's sparse information on the reality of contemporary capitalism.

Returning to the analysis of S's text, we have organized it into subsections on saving, investment, the propensities to consume and save, income determination, the multiplier, and state intervention.

III / "SAVING"

Keynesian theory places special emphasis on the alleged dichotomy between saving and investment. In fact, this point is central to Keynes' refutation of Say's Law. And that is why S opens his discussion of Keynesian theory with this topic.

S formulated the dichotomy in particularly strong terms: "The most important single fact about saving and investment activities is that in our industrial society they are generally done by different people and done for different reasons" (206). Taking this statement as our point of departure, let us proceed first to an empirical analysis of the underlying reality (Keynesians are not unaware of the "deviations" of their "model" from reality); here the emphasis rests on the overwhelming share of "saving" done by capital itself directly in the form of so-called undistributed profits and capital-consumption allowances, as well as on the class nature of that portion of "saving" that falls under the heading of personal saving. In the second part of our critique we will take up the concept of "saving" itself and the failure of S to mediate the superficial phenomenon of saving in national-income accounts with its base in the production and circulation of capital.
A / EMPIRICAL ASPECTS

1/ "Internal financing" as the tendential overcoming of the "cleavage between saving and investment" Although S admits that "when a corporation or a small business has great investment opportunities, its owners will be tempted to plow back much of its earnings into the business," he insists that "nevertheless, saving is primarily done by an entirely different group: by individuals, by families, by households" (206). In a later chapter he reintroduces the matter as a "qualification" to the powers attributed to the central banks to regulate investment via interest-rate changes; but even here he tries to give the impression that we are dealing with an obscure, recondite, peripheral point which it took experts to discover: "We must notice a point raised by experts in corporate finance. They point out that many firms, particularly large ones, finance their investments out of retained earnings and the cash flow generated by their own operations. Many avoid going to the banks or outside markets for borrowings or stock flotations" (337). More methodologically, Romney Robinson, in his Study Guide to S, after mentioning that firms do "most" of the investing and consumers "much" of the saving, concedes that "some saving is done by corporations. . . . Because most corporate saving is done in order to finance investment projects, it is an exception to the 'different groups' idea. Begin by assuming that such corporate saving is zero. It can easily be fitted into the analysis after you have mastered the all-important basic relationships."129 Aside from the minor oddity that it is "the 'different groups' idea" that is the "exception" (and would thus cast some suspicion on a theory that bases itself on "exceptions" only to incorporate the "rule" at some subsequent point), the attention devoted to this supposed cleavage stems from the Keynesian rootedness in the sphere of circulation, which militates against its development into an incipient awareness that crises originate in the sphere of surplus-value production. Keynes himself was conscious of the specific weight of corporate saving within national saving.130
Industrial capital historically has tended toward independence of “outside” sources of money capital; in other words, it produces the overwhelming proportion of surplus value which is accumulated (i.e., productively reinvested) within its own sphere. This contrasts with other periods of capitalism, when insufficient accumulation made for greater dependence on banks which could redistribute potential money capital from other sources. Although with the progressive concentration and centralization of capital, this holds true in particular for large individual capitals. It is also become true of industrial capital as a whole, largely because, as a result of the fusion of industrial and bank capital into finance capital, even bank loans and many stocks and bonds issues have become a new type of internal financing in the sense that many of the industrial firms and banks belong to the same finance-capital group.

Had Keynes devoted himself as assiduously to understanding the objective workings of capitalism as he did to the dissection of the mind of the bourgeoisie and the proletariat, he might have discovered that his witty paradoxes are rooted in the assumption that “consumption—to repeat the obvious—is the sole end object of all economic activity.” However, if one proceeds from the theoretical insight that in fact consumption is only the mediate “goal” of the capitalist mode of production (it is a subjective goal of the workers) and that it is constantly “interfered” with by the production of surplus value, then one can see that in a relative sense capital is the very “self-subsistent entity” that Keynes so tenaciously attacked.

As to the other aspect of saving, the relation of “business” to “personal” saving, here we also note that over the years the “personal” share has consistently been much the smaller one. The following table shows the breakdown of “private” savings (in billions of dollars) since 1950:

<table>
<thead>
<tr>
<th>Year</th>
<th>total</th>
<th>Personal saving</th>
<th>Gross business saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>42.5</td>
<td>13.1</td>
<td>29.4</td>
</tr>
<tr>
<td>1951</td>
<td>50.3</td>
<td>17.3</td>
<td>33.1</td>
</tr>
</tbody>
</table>

308 / ANTI-SAMUELSON, VOLUME I
Thus until 1970, "business" saving consistently accounted for more than 70 percent of total private saving in the United States, approximately the same result obtained with respect to internal financing as a share of all investment sources. We also find a similar decline in the business share during the latest recession. Although this trend has begun to subside and hence is not a significant indicator, still the relative upswing in personal saving is at least in part due to "statistical definitions." That capital provides the source of most of its accumulation directly is neither novel nor is it unknown to Keynesians. Thus at the end of World War II, Alvin Hansen wrote that "the first thing to note is that almost the whole of business investment in plant, equipment and inventories is financed from depreciation and other reserves, and from the retained earnings of
business,”133 For the Keynesians the problem resolves into how to find “investment outlets” “to absorb the flow of savings” “without destroying existing property values,” “without creating vast excess capacity.”134

21 Class distribution of saving Although we have already offered some material on the distribution of savings,135 some supplementary material will prove useful at this point. Our main purpose here is to show the nonexistence of an empirical basis for the supraclass and suprahistorical “psychological laws” that play so important a role within the Keynesian theory, and this despite the fact that a close reading of S’s own figures clearly indicates that most U.S. families have no savings whatsoever. Thus his Table 11-1 (210) shows that families with annual incomes below $8,000 (after taxes) are in debt. In the text he contents himself with the vague statement that “the very poor are unable to save at all” (210). But if we turn back to Chapter 5 (Table 5-2; 83), S’s own figures indicate that in 1967, 32 percent of all U.S. families had incomes below $7,500.136 Furthermore, if we add the families whose small positive savings compensate for the negative savings of the still poorer ones, we see that in the aggregate considerably more than one half of all U.S. families save nothing—that is to say, their savings and debts cancel each other out. This might be compared with S’s assertion in the first edition that “everyone will encounter, each day of his life, the problem of . . . investing his savings so as to afford maximum protection against the vicissitudes of life” (p. 201). Aside from the fact that S does not interpret the statistics, the table does not pretend to be a compilation of absolute or relative saving or its distribution; rather, it is presented as an example of saving propensities (of course, without sources). This constitutes a step backward from the comparative realism of the first edition, where, following the determination that “as a result of the war, the American people have accumulated more savings than ever before in our history,” S notes that “a quarter of all families (or spending units) had no liquid
savings at all in 1946: no savings accounts, no checking accounts, no governments bonds. Half the families had less than $400 of savings. On the other hand, the 10 percent of families with the highest savings averaged more than $10,000 of liquid assets apiece and had 60% of the total liquid assets" (pp. 211-13).

Two decades later, one sixth of all families still had no "liquid assets," and when we take into consideration a 50 percent drop in the domestic purchasing power of the dollar between 1946 and 1971, we see that more than half of all U.S. families still had less than the 1946 equivalent of $400 in such assets. Since data on net savings comparable to earlier studies are not available for the post-1950 period, but since apparently not much has changed in the intervening years, we feel we may compare that situation with that of 1929. In 1950, approximately three-quarters of the "spending units" showed no net saving inasmuch as the debt of one portion of that group canceled out the relatively small savings of the other. In 1929, the last pre-Depression year, we find a similar "break-even" point with respect to savings. If we ignore the "dissaving" of the lowest income group, we find that about one half of all families had no savings. At the other end we find that whereas in 1929 2.3 percent of all families accounted for about two-thirds of all saving, by 1950, 4 percent of spending units accounted for about 55 percent of all savings.

This would seem to indicate that the two extremes developed in similar directions: both lost ground, but the gap between them widened. The relative gain by the intermediate income groups may not be that significant inasmuch as the relative decrease for the highest group may merely represent the continuing decline of the pensioner element. The richest capitalists are not likely to hold much of their personal wealth in the form of savings and checking accounts or U.S. savings bonds, but in stocks, and these would not appear in these tabulations.

To demonstrate the correlation between income and saving let us look at the following table which shows the per-
c
tage of before-tax money income and net "spending-
unit" savings accruing to each income quintile for the year 1948:

<table>
<thead>
<tr>
<th>Income Quintile</th>
<th>Before-tax Income</th>
<th>Net Family Saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>lowest 20%</td>
<td>4%</td>
<td>-24%</td>
</tr>
<tr>
<td>next 20%</td>
<td>11%</td>
<td>-3%</td>
</tr>
<tr>
<td>next 20%</td>
<td>16%</td>
<td>7%</td>
</tr>
<tr>
<td>next 20%</td>
<td>22%</td>
<td>21%</td>
</tr>
<tr>
<td>highest 20%</td>
<td>47%</td>
<td>99%</td>
</tr>
</tbody>
</table>

Thus the richest one-fifth accounted for virtually all of net saving, whereas the lowest two-fifths had debts in excess of savings. The fact that the third and fourth quintiles show some net saving indicates that the working class does do some saving (this holds true even more for doctors, lawyers, and other "professionals" as well as for small capitalists), which would appear to form the rational kernel for the Keynesian thesis about the cleavage between saving and investment. For as soon as the mass of the population has been separated from the means of production, and to the extent that it can do any saving at all, that saving by definition cannot be identical with the net capital formation taking place. At this point savings must go through banks if they are to reenter capital circulation in the form of money capital (in this case, loan capital) that can be productively utilized by industrial capitalists. By this time, however, the small savers have lost control over what has become capital and receive a mere fraction of what the bank capitalists receive for mobilizing credit, and they in turn receive only part of the surplus value appropriated by the industrial capitalist.

In conclusion, we must entertain the possibility that savings held by the working class do exist. However, even though these furnish the justification for the alleged cleavage between saving and investment, they represent only a very minor portion of saving and merely accentuate the
cleavage between the means of production and labor. There is no real cleavage between saving and investment, although there is one between the reasons workers save and the reasons capitalists do; the former are merely forgoing present consumption in order to provide for the future, while the latter never intend to consume their savings.

B / CONCEPTUAL ASPECTS

1/ "Cleavage between saving and business motivations" In proving S's assertions on the personal dichotomy between savers and investors wrong, we have by implication also demonstrated that the motives for saving and investing are not divergent. Yet we nonetheless wish to pursue this point, because it forms a link in the Keynesian theory of income determination. In listing the various reasons why "an individual may wish to save" (206), S merely seems to be concretizing the "eight main motives or objects of a subjective character which lead individuals to refrain from spending out of their incomes" enumerated in Chapter 9 of Keynes' *General Theory*, namely "Precaution, Foresight, Calculation, Improvement, Independence, Enterprise, Pride and Avarice." On closer inspection, however, we find that S has conveniently omitted one of these "motives"—Enterprise—that is, saving "to carry out speculative or business projects." This omission is vital to S's argument, since he would like to make atypical noncapitalistic saving motives appear as typical. In this way he has managed to sever any connection between saving and investment "motives" (except for the admission that "some business saving does still get motivated directly by business investment" [206]). Once this is done saving can then be safely relegated to the realm of psychology, and one can pretend that the difference in consumption levels in an otherwise homogeneous nonclass society are merely quantitative.

S’s approach distorts the social framework essential to an understanding of the problem, so that instead of mediating saving with the production and circulation of capital, S in effect reduces the framework to that of simple commodity and money circulation. Having safely tucked the process of
saving away in the sphere of circulation, S is prepared to deliver the coup de grace: "Whatever the individual's motivations to save, it often has little to do with the investment opportunities of society and business" (206). It is remarkable how he has managed to transform what was originally seen as a cleavage between saving and investment motivations into a differentiation between motivations on the one hand and "opportunities" on the other. Yet if we are to take this new "cleavage" seriously, then it is by no means peculiar to "our modern economy," for it is just as valid for Robinson Crusoe; that is to say, his motivation to save ("he may feel insecure and wish to guard against a rainy day" [206]) has just as little to do with the ability to "invest" his savings productively. Perhaps, as S contends, he would not save if he knew he could not invest, but that is another matter, for then we would no longer be dealing with motivations. By the same token, it is clear that the same situation holds true for the "modern" corporation, for its "motivation" for making a profit has little to do with its ability to realize it. This aspect of the critique is important because it refutes S's contention that the fundamental problems of the modern economy derive from the heterogeneity of motivations about saving and investment, in contrast to earlier (unspecified) economies. The rational kernel of this argument, however, is to be sought elsewhere—namely in the dichotomy between use value and exchange value in the "modern" economy, which did not hold true for Crusoe and others inasmuch as they saved and invested to increase their consumption. That the "modern" economy is not subject to the "problem" stressed by S becomes evident when we look at our "model," which shows no cleavage between saving and investment: there is one identical, homogeneous "motivation," and that is profit; yet this does not prevent capital from developing its contradictions (in S's view less than full employment and no investment opportunities for saving), rather, it causes them.

21 The use of precapitalist relations as the basis for understanding capitalism In his exposition of the Keynesian theory of saving and investment, S refers to noncapitalistic relations of
production to elucidate those aspects of capitalism peculiar to it, and which thus presumably lie at the base of its "problems," in contrast to those which it shares with other modes of production. Upon closer examination, however, we find that in doing so he merely manages to confuse the two categories.

By way of illustrating the Keynesian thesis that the savings-investment mechanism holds the key to the refutation of Say's Law, S introduces a situation in "our industrial society" in which there is no "cleavage." This "was not always so, even today, when a farmer devotes his time to draining a field instead of planting and harvesting a crop, he is saving and at the same time investing" (206). The phrase "was not always so" would indicate that in times past there were societies where this cleavage did not exist. But instead of dealing with them, S turns to today's farmer, and since in the course of the paragraph this farmer is transformed into "a primitive farmer," we do not know whether S is talking about all farmers, including large-scale capitalist farmers, or about a natural economy in which a family provides for all its needs without any exchange. (In the 9th edition "primitive" is replaced by "self-sufficient.")

In addition to lack of clarity S's argument suffers from the failure to spell out what is meant by saving and investment. First of all he confuses the issue by speaking of a farmer devoting his time to improving his means of production—in this case land—rather than to producing means of consumption. Is this supposed to mean that a crop that had already been planted was left to rot so that the farmer could use the time to drain the field? Or that he forwent producing a portion of the crop altogether so as to gain extra time? To prove his point, S would have done better to use as his example a farmer taking part of his crop set aside for personal consumption and feeding it to his livestock so as to increase their "productivity." This would thus be an example of a farmer actually "abstaining" and simultaneously utilizing the "sacrificed" use values to improve his productivity.

By insisting on the identity of saving and investment, S ignores the fact that productivity can be increased by work-
ing longer hours, without a parallel reduction of consumption. (The possible objection that the farmer’s level of consumption would not allow such an increase is not valid, since the same would then be said for any explanation based on unchanged labor-time with reduced consumption.) The farmer can do the normal amount of planting and harvesting and in addition drain his field; in that case investment would take place without any saving.

Similarly, saving can take place without any concomitant investment; for example, the farmer can take part of the harvest and store it for later use (reserve fund, etc.) without doing any investing whatsoever. This is also consistent with S’s definition in Chapter 3: “to save—to abstain from present consumption and wait for future consumption” (51). S manages to salvage his equation of investment and saving in Chapter 11 by inserting one of his famous magic little words: “abstaining from present consumption in order to provide for larger consumption in the future” (206). The inserted word is “larger,” which within S’s framework turns the equation of saving and investment into a tautology; by neglecting productivity increases resulting from additional labor not at the expense of consumption, S has injected the definition of investment into that of saving inasmuch as the former means “improving the productive capacity of his farm.” We are not quibbling with words or citing atypical examples, since most worker savings in “our modern industrial society” are not directed at increasing total consumption but merely represent deferred consumption, and this, when we abstract from its mediation through money, is materially no different from the farmer’s storing up for winter.

It is S’s intention to describe the differences between, as well as the common properties shared by, “primitive” (“self-sufficient”) and “modern” societies. Before examining those differences more closely let us turn to the ideological purpose behind this assertion of certain nonexistent common properties. In Chapter 3 S had already sought to obliterate most of the essential differences of various modes of production. What he attempts here is to emphasize the
universal content of certain categories. Investment is identified with net-capital formation, and net-capital formation in turn is equated with improving productivity. This sequence of identities is the product of S’s inability to distinguish between the social form in which the means of production appear in various modes of production and their physical aspect. Because capital is not simply a means of production it does not serve merely to increase production; capital formation is oriented toward increasing surplus value by lowering the cost of production to the capitalist. But since this latter process periodically conflicts with the reduction of the total surplus value which can be appropriated from a given number of workers, the production of use values itself is cut back or stopped.

Although under the artificial conditions posited by S increased production would bring about a reduction of consumption, the attempt to shift this arrangement to "modern industrial society" fails on several grounds. First of all, it is extremely rare for anyone in "modern" society to abstain from consumption so as to increase production. Capitalists as individual investors-savers do not abstain from consumption, nor is it their intention to increase production by not consuming what they could not consume anyway: their purpose is to increase profits. The abstention that is taking place is the involuntary abstinence on the part of the working class.

Before leaving this subject we should once again make clear that S’s assertions do contain a rational kernel, namely, that a Crusoe or any planned, natural economy can abstain from consumption (i.e., saving in S’s terminology) with or without the intention of increasing production (investment or reserve building, respectively) without causing a crisis. But the fact that crises do not result stems not from a marginal propensity equal to one (for in the case of reserve-building this is not the case) and not merely from the fact that saving is directly investment (for this may also be the case within the "modern" capitalist corporation); but rather from the fact that the producing units do not relate to one another only indirectly on the basis of the value of
their commodities. Production is not private; it is planned, and thus by definition social. There is thus only one producing unit and—thus to use bourgeois terminology—there can be no external effects.

Neglect of the reproduction of constant capital

The following set of equations or identities (see also S, 204) plays an important role within Keynesian theory and constitutes an important link to the field of national-income accounting:

\[
\begin{align*}
\text{Income} &= \text{value of output} = \text{consumption} + \text{investment} \\
\text{Saving} &= \text{income-consumption} \\
\text{Therefore saving} &= \text{investment}.^{143}
\end{align*}
\]

According to Keynes, “The equality of saving and investment necessarily follows”

provided it is agreed that income is equal to the value of current output, that current investment is equal to the value of that part of current output which is not consumed, and that saving is equal to the excess of income over consumption. . . . Thus any set of definitions which satisfy the above conditions leads to the same conclusion. It is only by denying the validity of one or the other of them that the conclusion can be avoided.\(^{144}\)

The validity of these “definitions” is, however, highly questionable.

The basic feature of bourgeois theories of national accounting—namely the sphere of circulation as the point of departure—also forms the basis for Keynes’ equations: the problem of the formation or production of national income is replaced by that of its distribution between consumption and investment. Connected with this is the inability to distinguish consistently and systematically between national income and the total social product. Keynes’ contention that income equals the value of output reflects this inability. If it were so it would mean that either the latter is equal to value added (in Marxist terms wages plus surplus value), or that the former (income) is equal to GNP (wages
plus surplus value plus "depreciation," that is, the constant capital reproduced each year).

The first interpretation is tantamount to the assumption that no constant capital is used in production; the second, that depreciation represents income on an aggregate social level. Both exemplify the inability of bourgeois economics to come to grips with the reproduction of constant capital. In his effort to establish equality or identity of investment and saving, Keynes further assumes that all saving is done out of national income, while in fact part of it is formed from the amortization fund (depreciation allowance), hence part of investment also derives from this source. This in turn means that income does not equal consumption plus investment. As a result of these income-theoretical considerations Keynes finds himself in the ironic position of defending the underlying assumptions of Say's Law, for under effective demand Keynes programmatically includes only national income and ignores the replacement of the used-up constant capital. This becomes even more ironic in view of Keynes' empirical awareness of the untoward effects of the nonrenewal of the constant capital on "effective demand" during the stagnation of the 1930s.

IV / INVESTMENT

Having adequately explained the forces operating on the saving side, S feels free to turn his attention to the investment side: "The extreme variability of investment is the next important fact to be emphasized" (207). Doubtless this is important—so important, in fact, that it deserves an explanation. Instead, we are offered circumlocution. We are given the assurance that "this capricious volatile behavior is understandable when we come to realize that profitable investment opportunities depend on new discoveries, new products, new territories and frontiers, new resources, new population, higher production and income. . . . Investment depends largely on the dynamic and relatively unpredictable
elements of growth in the system and on elements outside the economic system itself. . ." (207).

But what is this "system"? As far as we know, it is "our modern economy" as opposed to the "primitive" farmer and others like him. This would have to encompass both the socialist and the capitalist economies, but in fact the "system" turns out to be capitalism. The key to S's "explanation" is semantic, for without any apparent justification he has identified "variable" with "capricious, volatile" and "dynamic" with "unpredictable growth." But there is no justification for this identification, there is no essential connection between change and caprice. Cannot growth be planned? Of course it can, but not in an unplanned economy. That change in capitalism takes place anarchically is hardly the discovery of the Keynesian revolution. Furthermore, S's formulation appears to mark a backward step. First, his choice of words—"capricious, volatile"—is indicative of the subjectivistic thrust nurtured by Keynesianism. These are terms ordinarily used in a personal sense. S's choice is not a fortuitous one, nor is our criticism of that use gratuitous, for S speaks of investment as being "desired" by "individuals" and of "how much entrepreneurs can indulge their desire to invest" (207). Moreover, his choice of words implies that this variability is not only unplanned but also incapable of being subsumed under scientifically formulated categories; yet capitalism, though anarchic, is nonetheless subject to inherent developmental laws. Some of our confusion may disappear when we find that S is talking about "profitable investment opportunities." But before we sigh in relief over finally grasping what he is getting at, we must recognize that what first appears to be a rather banal reference to the peculiarities connected with the profit requirements of investment assumes significance once we determine its systematic function within S's reasoning. To be more explicit, the mere reference to profit as a condition of investment is both more and less banal than it appears at first glance, for S does not restrict this condition to capitalism; rather he regards profit (under the name of interest) as a fixed category
associated with the net productivity resulting from "investment projects." Thus on the one hand one might conclude that capricious behavior could be common to all "progressive" societies (i.e., those undertaking "net capital formation"); on the other, since this "theoretical possibility" is in fact untenable, we would expect some explanation of why it is limited to one economic formation. S of course does not bother with such peripheral matters, and we are offered no explanation whatsoever at this point. Whatever explanation he chooses to offer is reserved for that branch of economic theory known as the study of business cycles (Chapter 14), which largely antedates the Keynesian revolution.

At this juncture S is solely interested in confirming or emphasizing certain surface phenomena. But he does leave the realm of psychology long enough to make a few general remarks concerning the consequences of the (capitalistic) variability of investment. He reminds us that laissez faire cannot guarantee that investment will be such as to ensure full employment. But lest the reader jump to the hasty conclusion that something is amiss, he prefaces this warning with praise for "an industrial system such as our own"—namely that it can do "many wonderful things," e.g., "respond to any given demand for goods" (207). S omits the little word "solvent" before demand, for obviously if capitalism were merely responding to a "demand for goods" it could guarantee full employment for generations to come. S fails to explain how the requirements for profitability manage to insert themselves between needs and fulfillment. In the end he admits that "the system is somewhat in the lap of the gods" as far as the stimulus to investment is concerned (208). Solace is offered in the form of "perfectly sensible public and private policies"; yet although he concludes that the "one thing" laissez faire "cannot always do" is guarantee full employment, we know that neither can our "mixed economy." And perhaps that is not its purpose, for in a very significant passage (expunged from the 8th edition) S confides that these "sensible policies" "cannot expect to wipe out business fluctuations..."
100 per cent. We would not want them to, even if they could. But they can try to reduce the range of wild fluctuations in prices and employment. . ." (7th ed., p. 198). Now who is the "we"? Certainly not those who are made unemployed by the less than "wild fluctuations" guaranteed by the mixed economy.

We have seen that the absorption of the reserve army of the unemployed creates definite dangers for capitalist production. Although economists are wont to describe this situation in terms of a trade-off between inflation and unemployment, a more pertinent description would refer to the "dilemma" confronting the bourgeoisie in the form of the "trade-off" between increased "social unrest" (greater unemployment) and "artificial" barriers to capital accumulation (less unemployment). Even though S manages to avoid the term capitalism by substituting such code words as "laissez faire" and "mixed economy," capitalism apparently has not managed to avoid this contradiction.

In his textbook S carefully avoids coming to grips with this issue. In Chapter 29 he even goes so far as to pooh-pooh the (Marxist) notion that the reserve army can have a "beneficial" effect on work "discipline," productivity and wage demands. However, in an article published in the early 1950s, S exhibited a much less cavalier attitude toward the potential problems generated by "full employment." In it he examined the notion seriously and, while coming to no definitive conclusions on the merits of the argument, he acknowledged that no one had as yet devised a perfect formula for the appropriate mixture of carrot and stick in the area of production.

The 8th and 9th editions contain an important addendum to this section in the form of two "qualifications" on the alleged independence of the forces operating on saving and investment. We are already familiar with one—namely that corporate investment decisions are "often . . . closely related" to the magnitude of retained profits (which S insists on calling "savings," as though this could possibly have anything to do with "abstaining from consumption"). The second relates to the influence exerted by the availability of
"people's savings"—"particularly in times of tight money
and high interest rates"—on "how much entrepreneurs can
indulge their desire to invest in new profitable oppor-
tunities" (207). This second qualification is to be sure not
new either, although it had not yet been formulated this
clearly. According to S, "saving and investment decisions
are resolved by what happens to the level of income and
employment and to interest rates" (207). This does not
agree with the original Keynesian formulation, which held
that "saving and investment . . . are the twin results of the
system's determinants, namely, the propensity to consume,
the schedule of the marginal efficiency of capital and the
rate of interest."146 Subsequently Keynes explicitly charac-
terizes the volume of employment and national income as
"our dependent variable" while refining the above-
mentioned determinants into the "ultimate independent
variable . . . consisting of (1) the three fundamental
psychological factors, namely, the psychological propensity
to consume, the psychological attitude to liquidity and the
psychological expectation of future yield from capital-
assets, (2) the wage-unit . . . and (3) the quantity of money
as determined by the action of the central bank. . . ."147

To a large extent, these deviations are the result of S's
propensity to weed out the subjective elements from the
Keynesian theory and to graft more objective ones into it.

We will come back to the question of income determi-
ation. At this stage we merely wish to point out that the two
"qualifications" inserted by S, taken together with our em-
pirical information, show that saving and investment are
merely superficial and misunderstood aspects of the pro-
cess of capital accumulation.

V / THE PROSPENSITIES TO SAVE AND TO CONSUME

This section, perhaps more clearly than anything before,
reveals the highly eclectic basis of S's methodology. How-
ever, given the absence of a consciously formulated
methodology, the term "eclectic" implies greater
methodological sophistication on S's part than the facts would warrant.

S cavalierly dismisses that which Keynes deemed the firm psychological foundations of the above topic. Thus although S devotes several subsections of Chapter 11 to various aspects of the propensities to save and consume, he encloses the references to them in quotation marks and labels them "so-called" (210). Yet despite his tendency to discard the psychological base in favor of "behavioralistic" criteria, he finds significant ideological value in retaining the psychological trappings. This emerges most clearly when he passes from the individual or family propensities to "the community's over-all consumption schedule" (215 ff.). In fact "society's" propensity to save or consume derives its plausibility from the "decisions" taking place on the individual or family level. With respect to the latter, we find this theoretical grounding in the original Keynesian, version:

The fundamental psychological law, upon which we are entitled to depend with great confidence both a priori from our knowledge of human nature and from the detailed facts of experience, is that men are disposed, as a rule and on the average, to increase their consumption as their income increases, but not by as much as the increase in their income.148

While backing off from determining whether this proportion saved will increase, Keynes claims that the "fundamental psychological rule of any modern community" must obtain—otherwise the regularity "characteristic of the economic system in which we live," namely that its "severe fluctuations" are "not violently unstable," could not obtain.149 And then he jumps to the conclusion that "since these facts of experience do not follow of logical necessity, one must suppose that the environment and the psychological propensities of the modern world must be of such a character as to produce these results."150

Since S himself is apparently loath to claim the existence of a psychological entity like an individual's marginal propensity to consume, we will not devote much space to this
point. For the bulk of the members of capitalist society, "propensities" to consume and save can have little meaning; for if, as we know, that for the majority of the population the question of choice does not exist, that it is living on a level that permits only the propensity to survive, then the basis of Keynes' "psychological law" begins to crumble. For some, namely those with above-average even though not extremely high incomes who do actually make choices between consumption and saving, Keynes' "laws" do have some relevance. Finally there is the relatively small group of capitalists with disproportionately large incomes who also are not subject to the contraints underlying Keynes' laws, since their income was never meant to be consumed in the first place.

The notion of the individual or family decision-making process provides the plausibility for the aggregate propensity to consume and save. The irony here is that the prototypical microeconomic activity hardly represents the sound basis for its macroeconomic analog which it is supposed to supply. But this methodological consideration recedes into the background in favor of an overriding ideological one: namely, that by building on the image of family decision-making (in itself already a distortion of reality), S fosters the illusion that society as a whole is also deciding to consume part and save part of "its" yearly income. In fact, in the self-image of this theory the societal decision is supposedly a result of these individual decisions, which leads to the very desirable ideological result that our mixed economy contains a democratic element.

With reference to the propensity to consume, S says that "it is a basic, important concept whose general properties we must study" (211). Yet the pages that follow are devoted to mathematical and/or geometrical operations without ever developing what most serious social scientists would consider a "concept."

Now if such methodological problems arise even on the relatively straightforward level of individual propensities, they become compounded once they are "aggregated." True, during any given period of production a part of the
newly produced commodity is consumed, and the relevant mathematical operations would yield a fractional figure, but whether the mere existence of such a fraction—which S persistently confuses with a "concept"—permits us to draw any conclusion about the existence of a "community's overall propensity to consume" is a crucial methodological consideration which S apparently does not consider problematic.

As we have repeatedly said, on a concrete level we are not denying the relevance of such factors as the division of net income into consumption and investment. But aside from the fundamental objection that Keynesianism fails to recognize the determination of this division in the relations of capitalist production, we must also note that its fixation on the sphere of circulation and the accompanying absence of a theory of reproduction are responsible for a central weakness of the theory of income determination.

VI / INCOME DETERMINATION

Let us begin by summarizing some of the most important "simplifying assumptions" underlying "the modern theory of income determination." The two on which we have placed greatest stress and which play the biggest methodological role here are family-propensity schedules and the exclusion of undistributed corporate profits (220 f.).

As far as community consumption and saving schedules are concerned, "They are drawn up on the basis of our knowledge of the thriftiness of different families," income distribution, and several other "qualifications" which complicate but in no way are supposed to devastate the "aggregating" operations (216 ff., 220).

The second assumption, the neglect of internally generated profits, fits in quite nicely with the first, since it diverts attention from the objective laws governing the production and utilization of profit and focuses it on the allegedly dominant subjective factors relating to saving and consumption, and later to investment as well.
This psychological orientation finds unambiguous expression in phrases like "everyone will be content to go on doing"; "business firms will be willing"; "desired saving"; "desired investment"; firms "feel safe" (222); business "wants" (224); "the public will wish" (231); "make people feel poor enough" (236); etc. It is no coincidence that by and large these words are used in the context of circulation-sphere spending, for a major thrust of Keynesian theory is directed toward the analysis of spending and the practical efficacy of spending to increase production (income, or more accurately profits). Although neither Keynes nor S asserts that spending in itself leads to increased profits without increased production, they are remiss about showing the mediating links. Keynes emphasized the role of expectations; and even though S appears to eschew such blatant psychologizing when he can find a ready behavioralistic substitute, he is not at all reticent about resorting to a somewhat weaker subjectivism.

Thus in Chapter 12, he assigns a crucial role to changes in the rate of depletion or accumulation of inventory; in fact, one might say that he makes changes in production a function of these inventory changes (222-26). Now it is clear that on a practical level the relation between sales and inventory is bound to be a decisive indicator to the capitalist economic agents on making output decisions for their firms; and even on a very concrete analytical level the conclusions that can be drawn about the development of mass consumption power from the demand for means of consumption and production as expressed in sales and inventory can be important. What is not clear is why the analysis must remain on the level of subjective motives imposed upon the practicing capitalist by the forces of competition.

The income-determination analysis S offers is a three-tiered composite: (1) an arithmetic and geometric formulation of what appears on the surface of economic events; (2) a distortion of the deeper processes caused in part by this superficial view and in part by "simplifying assumptions";
and (3) an unintended refutation of the assertion that capitalism is not divided into classes and that consumption is the sole end of economic activity.

Although in Keynes' and S's model actual savings must equal actual investment ("by definition"), there is a cleavage between the motivations for saving and investing: individual consumers decide to save to provide for future consumption, whereas individual entrepreneurs decide to invest to provide for a "satisfactory profit position." Since the latter decisions are clearly contingent upon profitability conditions, while the former are not, what consumers want to save may not parallel what entrepreneurs want to invest. In Keynes' main "case" the tension generated by the level of savings in excess of that of investment is resolved by a reduction of total income, and thus of total consumption, to a level below that of the preceding period.

The Keynesian model argues as follows: the community chooses a certain level of consumption based on the expected level of income; profitability requirements, however, force modification of this level of consumption. The crucial point here is that these are economic, not technological requirements: though it may be technologically possible to produce for a certain level of consumption, it can be unprofitable for entrepreneurs to do so: hence, under these circumstances this level will not be achieved. This also means that Keynes and S have contradicted themselves, for their own analysis indicates that in capitalist society consumption cannot be the sole end of economic activity.

By positing this conflict between consumers and entrepreneurs, Keynesian theory rather confusedly and from the point of view of the circulation sphere is pointing to the existence of classes and class struggle under capitalism; for workers, as opposed to entrepreneurs, are primarily consumers, while capitalists by definition are primarily "entrepreneurs" and only secondarily consumers. In conjunction with the savings and investment statistics that showed that the same class of persons by and large controls savings and investment decisions, these considerations demonstrate that workers do not have any "real say" in determining the
level of consumption of society through their savings and consumption decisions. Thus on this level Keynesian theory reflects the social contradictions of capitalist production in a very distorted fashion; the theory can do this because it has taken into consideration certain striking features on the surface of depressions, crises, stagnation periods, and of the industrial cycle in general. Yet the very fact that the theory sticks to these surface phenomena militates against a comprehensive formulation of all the contradictions of the capitalist mode of production, a weakness exemplified in S’s description of a segment of the income-determination chain of events. When business firms as a whole are temporarily producing a high total product, higher than the sum of what consumers will buy and what business as a whole wants to be investing . . . their total sales revenue will be so low as to be putting disagreeable downward pressure on their profit position” and thus firms will cut back their production (226). This is empirically true, but in this vague formulation the lack of effective demand is merely another term for the lack of adequate conditions for the accumulation of capital; it properly points to the lack of mass-consumption power as a critical factor in the road to crisis and stagnation, but it is not able to explain the connections between this lack and the absence of conditions of sufficient profitability.

But even this relatively critical approach sacrifices its more promising possibilities by putting the central problem in the framework of a class-undifferentiated concept of oversaving. In other words, as long as all income is spent by consumers, there are no difficulties. But: “Realistically, we must recognize that the public will wish to save some of its income. . . . Hence businesses cannot expect their consumption sales to be as large as the total of wages, interest, rents and profits” (231). Left to its own devices—that is, if for the time being we abstract from monetary and fiscal policy—the economy provides two basic responses to this situation. One is the “investment offset”: “If there happen to be sufficiently profitable investment opportunities, business firms will be paying out wages, interest and other costs in
part for new investments goods rather than 100 per cent for consumption goods. Hence to continue to be happy, business needs to receive back in consumption sales only part of the total income paid out to the public. . .” (ibid.). The second possible response centers on the question of what will happen “if business will not unwillingly invest more”—namely that production must be cut “until so much national income has been destroyed as to make people feel poor enough that they will finally end up not trying to save more than business will go on investing” (236). Let us begin by examining the latter of these two possibilities. In the original Keynesian formulation:

If . . . the inducement to invest is weak, then . . . the working of the principle of effective demand will compel it ["a potentially wealthy community"] to reduce its actual output, until, in spite of its potential wealth, it has become so poor that its surplus over its consumption is sufficiently diminished to correspond to the weakness of the inducement to invest.151

Or, as Keynes rephrases it:

So, failing some novel expedient . . . there must be sufficient unemployment to keep us so poor that our consumption falls short of our income by no more than the equivalent of the physical provision for future consumption which it pays to produce to-day.152

The most striking feature in all these formulations is the class-undifferentiated notion of saving and oversaving. A careful examination of the Keynesian reasoning will show that neither a class-specific “disaggregation” of the macroeconomic savings analysis nor the so-called aggregation itself contributes to an understanding of the underlying processes. Thus any attempt at disaggregating is vitiated by the fact that by and large those who “feel” poor are poor and do not save at either the higher or reduced levels of national income; and similarly, by and large the big savers are not made (to feel) poor by drops in national income, since “its surplus over its consumption” is almost always sufficient to force it to “save.” If we look at the “communi-
ty’s” saving processes, the picture would seem to become even more distorted, for the Keynesian theory contends that the crisis is mastered by diminishing income until the level of savings becomes compatible with the level of investment corresponding to a weakened inducement to invest. But in point of fact the crisis is not mastered by destroying surplus value (i.e., savings); on the contrary, one of the prime mechanisms for restoring conditions of profitability is the destruction of capital—that is to say, the idling of some parts of the capital “stock,” the depreciation of another, and the obsolescence of still a third. Paper titles to parts of total profit are destroyed via bankruptcies, etc.; and the relation of prices upon which money as means of payment rests is also thoroughly revolutionized.

Now let us return to the first of the two responses of the mechanism determining income to a situation in which “the public will wish to save some of its income” and thus withdraw that part from consumption sales. To begin with, this approach rather than being “simple” turns out to be convoluted. The reason S raises this possibility is connected with his methodological assumption of no “undistributed corporate profits”; for if instead he had assumed that profits were not distributed to the public (as dividends), but rather were internally generated and reinvested (accumulated), then it would become clear that “savings decisions” are in fact dependent on the contradictory process at work in determining the mass of surplus value produced. Instead, S starts from the assumption of an atypical state of affairs—namely, simple reproduction, in which the total annual product is consumed and not part productively accumulated. But even this notion of simple reproduction is distorted, insofar as it posits consumption as the determining factor, with savings (i.e., investment) as a sort of residual (238), the result of seeing investment as an offset “to absorb the excess of total output over what the community chooses to consume.”153 Furthermore, even within the bounds of simple reproduction S fails to take into consideration the various complications arising from the simple reproduction of constant capital.

Finally, connected with this distorted formulation of the
process of reproduction is S’s failure to distinguish between problems of realization for individual capitals and for capital as a whole. Obviously, if all profits were distributed to "the public" in the form of dividends, and these were not consumed (or lent back to the corporations or used to buy newly issued shares, etc.), we would be faced with a severe case of overproduction. But even if we accept S’s assumptions, it remains a fact that in the beginning at least this problem would not affect certain individual capitals—namely those mass production branches generating means of consumption for the working class which by and large has no net savings; in the first instance it would affect those branches producing luxury goods purchased largely by capitalists. This in turn would result in a reduction in demand for means of production by the producers of these luxury goods, with further effects on all interdependent reproductive relations.

Thus ultimately we are dealing with the complicated conditions of equilibrium between the two large departments of production: the producers of means of production and the producers of means of consumption. However this is obscured in S’s analysis (earlier he has spoken of “business firms as a whole” [226]) because his basic assumptions distort rather than reproduce the basic features of capitalist production.

VII / THE MULTIPLIER DOCTRINE

In this section, dealing with the more theoretical aspects of the theory of income determination, the extraordinary significance Keynesians attribute to spending per se—that is to say, regardless of its place within the capitalist mode of production—takes on particular importance.

Are the Keynesians able to prove that additional spending will lead to additional production, that is, that incremental spending will not turn out to be merely inflationary or inventory-depleting in nature? In case of the former, we have no increase in income and the multiplier cannot serve
its reputed practical function of leading the way out of a period of stagnation; and if the effect of the multiplier is inventory-depleting, then, under certain conditions, it might ameliorate the problem of surplus-value realization but it would not solve the problem of surplus-value production.

To what extent does the "doctrine" of the multiplier come to grips with links that connect additional spending and increased production'? Given the "common sense and arithmetic" relation between the marginal propensities to consume and save and the multiplier (230), we can at this point turn back to the unreflected use to which S puts the marginal propensity to consume.

One major difficulty with using the marginal propensity to consume in the way Keynes and S attempt to is that their application rests on the false assumption that every time the increment in spending changes hands it is divided between saving and consumption spending without any intervening steps. In point of fact, however, at least every other change of hands brings money into the hands of a capitalist, which is then divided among replacement of the constant capital, wages, and surplus value (whereby the last in turn is subdivided into the various concrete phenomenal forms of surplus value such as interest, profit, rent, dividends, etc.).

Let us consider S's example illustrating the workings of the multiplier "by using ordinary common sense." This is how he proves that his hiring of "unemployed resources to build a $1,000 garage" will lead to "a secondary expansion of national income and production, over above" his "primary investment":

My carpenters and lumber producers will get an extra $1,000 of income. But that is not the end of the story. If they all have a marginal propensity to consume of 2/3, they will now spend $666.67 on new consumption goods. The producers of these goods will now have an extra income of $666.67. If their MPC is also 2/3, they in turn will spend $444.44, or 2/3 of $666.67 (or 2/3 of 2/3 of $1,000). So the process will go on, with each new round of spending being 2/3 of the previous round [229].
To begin with, in characteristic fashion he has selected an atypical example. A developed capitalist economy is not a system of independent small commodity producers (S’s carpenters) who merely receive in exchange the money form of the commodities (and/or “services”) which they sell, as opposed to a society of capitalist producers for whom there is a difference between costs (namely constant plus variable capital) and the value of the commodities produced (namely constant capital plus the total value added by the workers).

S’s example clearly assumes that the entire $1,000 accrues as income to individuals, and for that matter that at each successive spending step the entire amount accrues as income. Since by S’s own assumptions we can disregard transactions between two consumers as consumers (e.g., the purchase of a used car from its previous owner), at least every other change of hands brings the money into the hands of a capitalist. We say “at least,” because capitalists buy from one another in order to replace and/or expand their constant capital—and this does not constitute spending on consumer goods, new or otherwise.

Now if at least every other stage brings the money into the hands of a capitalist, it becomes inappropriate to speak of a marginal propensity to consume at each stage, for this is a property for consumers, not of corporations. True, some of the money of corporations goes toward wages and personal incomes, but at least part of it goes for replacement and expansion of constant capital. The share of income devoted to renewing and extending the constant capital depends largely on the organic composition of capital in the branches of industry involved (that is to say, how “capital or labor intensive” they are). Thus, if one wanted to trace the “flow of incremental spending,” the organic composition of capital would be a more relevant criterion than the marginal propensity to consume. The more critical bourgeois economists have also found certain weaknesses in the multiplier theory, in particular with respect to the marginal propensity to consume. Thus one European economist, Hugo Hegeland, wrote in the early 1950s:
There is no connection between the given income and the increment of income. The two streams are merely aggregated as two numerical quantities without any causal relations. This presumes a peculiar behavior of the individual income earner, namely that he distinguishes between his original income and the additional stream which he will receive as a result from the new outlays on capital construction. The monetary saving from his original income will be transformed into capital outlays but the saving from his additional income will leak away. . . . The change in total income takes place without influencing the entrepreneurs, in spite of their given amount of capital outlays constituting, after all, the larger part of the total stream of capital outlays. These are the consequences of Keynes' proposition of a marginal propensity to invest equal to zero. It means that all economic unities of the given society will act only as consumers when they receive an increment in income. The producers and sellers of consumer goods will thus increase their outlays, not as entrepreneurs and sellers, whose activities are mainly based on the search for profit, but as consumers, and in a ratio determined by the given marginal propensity to consume. The whole process of income creation from one equilibrium situation to another is wholly governed by one individual activity, founded on utilitarian assumptions: the marginal propensity to consume. . . . In the multiplier model the behavior of corporations, of special groups of interest, of power blocks, or of human beings acting as entrepreneurs is entirely ruled out. . . .

And again focusing on the circulation-sphere orientation of Keynesian theory, Hegeland notes that in the multiplier theory economic activities are considered mainly from the banking viewpoint: cash holdings, liquidity preference, saving, etc., are concepts playing a dominant role in this system, whereas the characteristic features of production, such as the technical development, the accumulation of capital equipment, the profit-motive, the presence of monopolies, etc., are generally neglected.\textsuperscript{155}

Two types of answers have been made to the critique we have presented here. One points out that empirically the
multiplier does not turn out to be anywhere near so large as one might expect on the basis of an aggregate propensity to consume of about 9/10, because the MPC is out of disposable personal income; thus in addition to the traditional "leakages" such as saving, foreign trade, taxes, etc., the very significant "withdrawals from GNP" represented by "business depreciation allowances and undistributed profits" must also be taken into consideration.156

The other type of answer, a hypothetical one, might hold that in S's example, the $1,000 does eventually accrue as income of individuals, although it would take more than one transaction for this process to reach its end. Accordingly, the MPC can be used to determine that after the $1,000 accrues as income, 1/3 of it will be saved and 2/3 spent, and this 2/3 will eventually also accrue as income, and so on for 2/3 of that income. Thus the multiplier still works as described, although with many intervening steps.

To concretize this rebuttal, according to which the $1,000 does after all accrue as income: let us say that the $1,000 is paid to a carpenter to build S's garage. The carpenter keeps only part of this sum as personal income; the rest he pays out for building equipment and materials. But the people from whom he buys these commodities must in turn use part of the purchase money to pay for labor, and so on until the entire $1,000 is spent as payment for labor, that is to say, until it accrues as income to individuals.

This argument is not new: Adam Smith used it two hundred years ago, and it has not improved with age. But just as Smith and the Keynesians contend that the entire annual product accrues as income to individuals, the same argument might be used to show that the entire $1,000 accrues not as income to individuals but as payment for means of production. After all, that portion of the $1,000 not spent by the carpenter for means of production will eventually be spent for other commodities, the person from whom he buys these commodities will spend a portion of the money received on means of production, and so on, until the entire $1,000 is spent on means of production.

There is obviously something fishy about an argument
that permits one to dissolve this spending increment into just about anything one chooses. We do not of course mean that the phenomenon in part described by the multiplier does not exist; in a way it is common sense to say that if S hires unemployed resources the end result may be the expansion of demand for means of consumption, and, consequently, for means of production. Whether such an expansion actually takes place is another matter (depending for example on the depth of the stagnation in question, that is to say, how much debt has accumulated whose repayment will not have a multiplier effect, on the size of the "backlog" of surplus value that because of overproduction remains to be realized, etc.).

In order to gain a better understanding of the distorted relation between consumption and production that typifies the multiplier "doctrine," let us examine S's other approach to the multiplier, which takes consumption rather than investment as its point of departure: "Just as investment spending is 'high-powered spending' with multiplier effects on income, consumption spending that represents a genuine shift in the propensity to consume and save will also be 'high-powered'!" (236). This notion is connected with a conception of economic growth that received much attention in immediate post-World War II discussions how to develop an economic policy able to eliminate stagnation periods such as that of the 1930s. This particular conception was known as "a high consumption . . . high-wage, low-profit economy."

Both these authors are acutely aware of the contradictions involved in the attempt to put the multiplier into effect on
the basis of a "genuine shift in the propensity to con­sume." Thus Williams remarks that "the great difficulty about rising wage rates as a means of raising national in­come is the conflict between wages as income and wages as cost. . . . This is a particularly difficult aspect of our prob­lem. We must not lose sight of the fact that ours is a profit-seeking economy." And Hansen speaks of "a wage-profit dilemma. . . . It must be recognized . . . that there are certain limitations on how far profits can be en­croached upon." Since they are also aware of dangers involved in the traditionally volatile "business" cycles, they try to arrive at some sort of compromise: "A lower rate of profits in a more stable economy would be preferable, even from the standpoint of business itself, if it did not impair long-run growth." We are still waiting for the "decision" on the part of the capitalist class to accept, or rather enforce, a permanently reduced global rate of surplus value in order to preserve capitalism for the future. Until that time, "high-powered spending" via permanent income shifts from capital to labor will have to remain buried in the pages of textbooks.

VIII / FISCAL POLICY IN INCOME DETERMINATION

If at the beginning of this chapter sequence S could still maintain that "the income analysis described here is itself neutral: it can be used as well to defend private enterprise as to limit it" (8th ed., p. 193), by the time he gets around to introducing government fiscal policy "explicitly" (243) this seeming neutrality has evaporated. In a now-deleted passage in the 7th edition, S conceded that at this point "we stop being the detached observers of whatever it is that happens. Like the doctor who puts to work the objective findings of physiological science, we put to work the theory of income determination to show how government fiscal policy . . . can influence and stabilize the level of national income" (p. 222). Being aware of the "objectivity" of the analysis up to this point, we can well imagine with
which class the now no longer "detached observer" will identify.

To return to the discussion of the practical aspects of the consumption-induced multiplier: As we know, Keynes attached great significance to programs aimed at increasing the propensity to consume: "For it is unlikely that full employment can be maintained, whatever we may do about investment, with the existing propensity to consume." And although "Keynes' theory is not oriented to changes in the social structure, but is primarily concerned with how to make capitalism work, given the existing social structure," the so-called left-wing Keynesians in particular (Joan Robinson, Michael Kalecki, et al.) have placed great stress on income redistribution via progressive taxation as a means of raising the propensity to consume. In fact, well over three decades ago even S espoused such views:

A new canon of taxation can be enunciated as follows: private income being given, any amount of revenue should be raised by taxation of income with the lowest marginal propensity to consume up to the point where marginal propensities to consume are equalized. This will maximize national income.

Unfortunately, S's fiscal imperative has not been implemented. In the words of one economist describing S's development since the first edition of his textbook, "a good deal of the boldness, originality, and activism of the early Keynesians has been modified or abandoned altogether."

The reasons for his discarding of serious schemes to increase the propensity to consume via income redistribution are not hard to find. As Dillard explains:

An inevitable limitation on the extent to which progressive taxes can be used arises from the fact that the money which is taxed away from the rich can hardly be given directly to the poor, although to some extent this is possible in the form of pensions, relief payments, et cetera. Therefore, the government which collects taxes for purposes of redistribution must either pay subsidies to private citizens or expand the scope of its activities in order to provide social services for lower-income
groups. . . . Although services of this type are of great social significance, they do not enable the low-income groups to increase the money income out of which they must feed, clothe, and house themselves. Subsidies for housing, or low-cost government housing, of course, are possible but tend to be strongly opposed by private interest groups. A further limitation to redistributing income by means of progressive taxation is the danger that high rates on large incomes may discourage private investment, upon which the private capitalist economy primarily depends for filling the gap between income and consumption at high levels of unemployment. If progressive taxation increases the community’s propensity to consume at the expense of weakening the inducement to invest, the losses in employment from the latter may more than cancel the gains from the former. 166

It should come as no surprise to us that a redistribution of the yearly value created in favor of the working class, in other words a reduction of surplus value in favor of wages, would reduce the rate of profit and could hardly be suitable to the task of overcoming periods of stagnation by fostering the accumulation of capital.

Let us then examine the other methods available to Keynesian fiscal policy, primarily the various state investments and subsidies to private investment. In this connection S states that “public road building is economically no different from private railroad building” and that in general “government expenditure . . . has a multiplier effect upon income just like that of private investment.” This is based on the “chain of responding” described by the multiplier theory (244).

It is crucial to determine the relevance of the type of spending as far as S’s proclaimed goal of “stabilizing” capitalism is concerned.

Nothing in the history of economic theory makes the equation of “private” and state economic activities self-evident. Although the groundwork for the contemporary bourgeois view had been laid long before the triumph of Keynesianism, it fell to Alvin Hansen to recapitulate the arguments for the identification of private and state investment and to strengthen the theoretical underpinnings in
anticipation of the possible counterarguments from "conservative" business quarters. Hansen seeks to establish a parallel between Adam Smith's treatment of the physiocrats and the treatment contemporary bourgeois economics accords the classical economists, or rather, he seeks to demonstrate that Smith's critique did not go far enough. And he also believes that Smith fell into the basic physiocratic error of remaining fixated on material production:

It is remarkable that once he had taken the first step in the right direction, he should have made this error. If manufacturing is productive, since it no less than agriculture satisfies human wants, surely the opera singer, the servant, the teacher are equally productive.\(^{167}\)

Since most economists accept this reasoning, Hansen is puzzled by their rejection of it with respect to government expenditures:

It is sometimes said that there is an important difference between business expenditures and government expenditures, in that the former are self-sustaining while the latter are not. But this is not true. No private business can sustain its sales volume, unless the outlays of other businesses and the government continue to feed the income stream. . . . When it is said that public expenditures are "sustained out of" private income, it will be disclosed . . . that the reasoning is precisely similar to that of the Physiocrats. . . . In like manner, under modern conditions, many wants can be satisfied at all only by governmental action. . . . Just as the manufacturing population buys the surplus of agriculture in exchange for its products, so also the services of government enter into the exchange process and enrich the income stream. It is true that part of the exchange payment is in the form of taxes, but this in no way alters the fundamental fact of exchange. The income of the population attached to any private enterprise is derived not merely from the sale of its product to other private industries, but also from the sale of its product to the population attached to governmental projects. . . . In this process of exchange it is not true that any one segment of the exchange economy supports out of its surplus any other segment.\(^{168}\)
The central confusion of Hansen’s reasoning is connected with his attempt to explain the development of a specific mode of production with categories not specific to that mode. In methodological terms, this is tantamount to an inversion of Smith’s historical approach toward the economic development of his era.

More specifically, Hansen is able to establish an identity between “business” and governmental activity because he views both from the point of view of circulation and/or immediate labor process removed from the societal form under which production takes place. According to him, a public park or concert hall would be a utility-creating governmental expenditure, while soil-preservation programs of public schools would be examples of efficiency-creating expenditures. Although it is obvious that “under modern [capitalist] conditions, many wants can be satisfied . . . only by governmental action,” Hansen has confused the specific need for this state “intervention” and the specific form which it assumes with its underlying material content (e.g., “infrastructure”); this in turn is linked to his failure to recognize the fundamental differences between the state in capitalism and in precapitalist class societies. Thus although it is true that the state has undergone marked changes since the days of Adam Smith, the specific qualitative role which any capitalist state can fulfill is delimited by the essential characteristics of capitalist accumulation which have not changed conceptually since Smith; and whereas Smith was consciously engaged in a class and historical struggle against the remnants of a prior mode of production, and thus was justified in his strictures on the physiocrats, Hansen bases his theoretical innovations upon the implication that the self-expansion of value is no longer the objective end of the capitalist mode of production.

This brings us to the multiplier effect of government expenditures on income. Keynesian theory sees the mass of profit as determined by the aggregate effective demand, and the expansion of demand brought about by incremental expenditures, as leading to increased total profits. Thus Hansen speaks of some government projects as being
“genuinely profitable in the sense that they enlarge total national income by an amount at least equal to their cost.” The Keynesian misconception of the real processes characterizing capitalist production is due to the failure to recognize that “the economy can be stabilized” in accordance with the needs of a “healthy” capitalism only if money is spent as capital—that is, the purchase of means of production and labor power—and only if subsequently the labor power is expended in a capitalistically productive manner—that is, produces surplus value which can be accumulated.

Thus it is not the paid labor of the workers employed by the state investments that leads to increased total income, but only the increase of the productively employed workers. On the other hand, total income cannot exceed the increase of paid labor if only government expenditures take place, for these are by their very nature not surplus-value producing. It is true of course that through these state expenditures a rising demand for means of consumption and/or production can help with the realization problem of the surplus value represented by the overproduction characteristic of stagnation periods.171

We have touched upon state inducement to private investment only peripherally because S divides his treatment of fiscal policy into government deficit spending and reduced taxes to encourage private investment. Without being very clear about it, he gives the impression that these are interchangeable and, in effect, almost identical procedures. Yet Keynesians have long recognized that mere reliance on support of private investment is self-defeating.

Keynesian fiscal policy is able to come to grips with certain “difficulties” only by shifting the expression of underlying contradictions either to another sphere or to the future. This is a built-in contradiction in Keynesian policy itself, for to the extent that it is successful in its real—if often unproclaimed—task of recreating conditions of profitability it must at the same time lay the groundwork for the next cycle deriving from the contradictions inherent in the self-expansion of value.