Are Keynes and Marx Compatible?*

Sam Williams, blog critique of crisis theory, 2010-2011

Part 1

In the October 2010 issue of *Monthly Review*, John Bellamy Foster has an article that praises once again the work of John Maynard Keynes. In this article, Foster presents evidence that perhaps the most important ideas that distinguished Keynes of the "General Theory" from the traditional marginalist economists of the time were inspired by Karl Marx himself. Foster's latest article has drawn criticism from some corners of the Internet to the effect that Foster and *Monthly Review* are advocating Keynesian ideas rather than Marxism.

This is not a new charge against the Monthly Review School. Paul Sweezy, the founder of *Monthly Review*, never hid the fact that he was strongly influenced not only by Marx but by Keynes. Foster's article in the October 2010 *Monthly Review*—and other recent articles by Foster along the same lines—combine with two other developments that raise anew the relationship between the economic theories of Marx and Keynes.

The first of these developments is the expected sharp gains of the U.S. Republican Party in the congressional, state and local elections scheduled to be held on Nov. 2. Along the same lines is the recent string of large gains by far-right anti-immigrant parties in Europe.

The second development is the apparent decision of the world's central banks, headed by the U.S. Federal Reserve System, to engineer a new increase in the quantity of token—paper—money, dubbed by the media "quantitative easing," in a bid to jump-start the stumbling recovery from the "Great Recession." In anticipation of a new surge in the supply of token money, the dollar price of gold has been surging on the open market. It seems that a new wave of inflation-breeding currency devaluations may have begun, though in late October 2010, apparently alarmed by the spike in the dollar price of gold, the governments and central banks appear to be making efforts to dampen a bit the speculation regarding a new wave of currency devaluations.

While I have already written on Keynes and his relationship to Marx in my main posts, questions by readers and events demand that I take another look at the relationship between these two economic thinkers. This reply is therefore the first in a series of monthly posts on this subject.

Political implications

How you view the relationship between Keynes and Marx has major political implications on how reformable capitalism is. If it is highly reformable, then it is at least possible that a long era of progressive reforms lies ahead of us. For example, is it possible to achieve "full employment," or at least substantially "fuller employment," if the capitalist governments and the central banks adopt the kind of policies advocated by Keynes and his present-day followers?

While as Marxists our aim is a society without private property in the means of production and without classes, we do not oppose reforms under the current system that are in the interest of the working class and other oppressed people. Indeed, we aim to be the most consistent and best fighters for such reforms. If Keynesian economic policies can substantially improve the conditions of the workers, the poor farmers and peasants, and the oppressed nations under the current system, we should support them without forgetting that our ultimate aim is a socialist society where class rule is abolished.

Only if and when Keynesian economic policies advocated by progressive-minded Keynesians have fully exhausted themselves would a revolutionary perspective become realistic. If Keynesian policies are now incapable of significantly improving the conditions of workers and the oppressed under the capitalist system, we have no choice but to prepare for much sharper class battles ahead leading toward the revolutionary seizure of political power by the working class.

Marxists and the progressives

Progressives and Marxists share many of the same goals. Like Marxists, progressives fight against racism, war, national oppression, Islamophobia and global warming. Many progressives, like Marxists, are working toward a revival of the trade union movement. Marxists and progressives alike want to see the end of male domination over women and all forms of anti-LGBT bigotry. (1) And like Marxists, progressives want to see the abolition of the scourge of unemployment.

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* une partie de la bibliographie (Baran, Kalecki, Sweezy...) est disponible ici.

Progressives and socialism

Some progressives think that social evils such as unemployment, poverty, national oppression, global warming, racism and anti-LBGT hatred and oppression can be abolished within capitalist society. Other progressives believe that in the long run, capitalist society will evolve through a process of progressive reforms into a socialist society. These socialist progressives differ from Marxists in that they see no need for the working class to seize power from the ruling capitalist class but believe that the problem of the domination of government by the rich can be overcome through the mechanism of (bourgeois) democracy. Democracy, they maintain, makes a political revolution led by the working class unnecessary.

Still other progressives are willing to leave the question of capitalism or socialism to the future and instead concentrate on the progressive struggles occurring in the here and now.

John Maynard Keynes, the economist of the progressives

Virtually all progressives who give any thought to economic questions look to the English economist John Maynard Keynes (1883-1946) for guidance. If Marx is the supreme economic theoretician to Marxists, Keynes plays the same role for progressives.

Unlike most of the bourgeois economists of his generation, Keynes finally realized that capitalism was prone not only to sharp periodic cyclical crises but also to protracted mass unemployment. In contrast to Karl Marx, however, he held that mass unemployment and violent cyclical economic crises were not inevitable under capitalism but could be eliminated within the framework of the capitalist system.

That is, crises and mass unemployment could be ended without the abolition of capitalism *if* governments and central banks followed appropriate policies. For this reason, Keynes has become the leading economist of non-Marxist progressives who believe the government has a major role to play in combating unemployment and cyclical crises.

Keynes and socialism

Keynes was never a socialist. But many of his followers have been socialists. The Keynesian socialists point out that Keynes broke decisively with the economic liberalism he had supported as a young economist. (2) Keynes came to the view that the state as the supreme representative of society must follow policies that guarantee that everybody who needs a job gets one. The kind of policies that Keynes came to advocate, his socialist followers argue, inevitably will involve a vast and growing role for government in the economy. In time, the socialist Keynesians expect the growing role of the state will cause private property and the capitalist class to gradually fade away. An example of a socialist Keynesian would be Joan Robinson, the famous English economist and left-wing associate of Keynes.

Many of the socialist Keynesians are also "neo-Ricardians," who differ from Marxists in rejecting Marx's—and Ricardo's—law of labor value, as well as Marx's theory of surplus value. Robinson, for example, is often grouped with the "neo-Ricardians," whose views I examined in some of my replies.

Right-wing Keynesians

On the right, other followers of Keynes have advocated Keynesian policies as a way of saving capitalism. These conservatives Keynesians fear that if capitalist cyclical crises and the mass unemployment bred by them remain unchecked by government and central bank interventions, capitalism will be so discredited that it eventually will be overthrown. The late Paul Samuelson, perhaps best known as the author of a dreary college economics textbook that generations of students have had to struggle through, is an example of a right-wing pro-capitalist Keynesian.

The resurgence of the political right

Just two years have passed since the great panic of 2008 reached its peak. As I am writing this in October 2010, it seems likely that the U.S. Republican Party may very well win a majority in the U.S. House of Representatives and possibly though less likely in the Senate as well. (3) It is possible, though, that Republicans won't make as many gains as the big business press is so eagerly—and hopefully—predicting. Soon after the publication of this reply, the results of the election will be known.

But unless the polls are completely wrong, the results of the U.S. mid-term elections will be nothing less than a disaster for U.S. progressives. These elections will be nothing like the mid-term elections of November 1934. Then, Roosevelt's Democratic Party *increased* the majority it had in both the House and Senate. The election was a mass endorsement of the New Deal and a stinging rebuff to the Republican reactionaries. It took decades for the Republicans to recover.

Two years ago, progressives expected that the mid-term election of 2010 could well be a repeat of the November 1934 election. It would consolidate the gains won by the Democratic Party in the election of 2008, which U.S. progressives assumed would be their own victory. A new era, the progressives believed, of badly needed economic and social reforms would be initiated. Today, many progressives are in shock and badly demoralized. How could the Republicans be coming back after only two years? What went wrong?

The financial panic of 2008

The long-brewing economic crisis—now dubbed the "Great Recession"—broke out into the open in August 2007 as it became clear that the so-called "sub-prime mortgage problem" was not the "contained" and isolated problem the Federal Reserve chair Ben Bernanke claimed it was. Instead, the sub-prime mortgage crisis was the tip of the iceberg of a far more massive financial crisis. Starting in August 2007, U.S. credit markets began to seize up and economic growth soon ground to a halt across the capitalist world. After simmering for a year, the crisis came to a head in September 2008 when the powerful Wall Street investment bank Lehman Brothers collapsed.

Credit markets virtually ceased operating throughout the capitalist world. Global industrial production and world trade plummeted, while unemployment rose across the entire capitalist world. The "Great Recession" had arrived.

The neoliberal economic doctrines associated with Milton Friedman that had dominated professional economics for a generation were discredited seemingly overnight. Once again the ideas of John Maynard Keynes, the economist of the progressives, were back in fashion. The panic-stricken and suddenly demoralized capitalist class turned to the state—forgetting all their opposition to government intervention in the economy—to save their system from an almost complete economic collapse. Yet now, just two years later, with both the U.S. and the rest of the capitalist world well into a crisis of mass unemployment that followed the panic, the U.S. Republican Party, still spouting the same neoliberal clichés as if nothing had happened, seems poised to make massive electoral gains. How can this be?

The election and the panic

The November 2008 U.S. presidential and congressional elections were no ordinary elections. They were not only held at the height of a financial panic but saw the election of the first African American president in U.S. history. I admit that many of us of the older generation never expected to see such a development in our lifetimes. America was certainly changing, but where was this change leading?

To the progressives, the Democratic sweep seemed all the more impressive because unlike the Democratic majorities of decades gone by—such as those of the New Deal years of the 1930s—the Democrats' majority did not include a bloc of openly racist Southern segregationists. These traditional "Jim Crow" Democrats were generally to the right of the Republicans not only on the "race question" but on other questions as well. They would often form blocs with the Republicans to stop any pro-trade union or other liberal legislation. But this time, the Democratic ticket was headed by an African American, Barack Obama. And the heirs of the old Jim Crow Democrats had long since departed for the Republican Party.

Obama even managed to carry a few states of the "upper South" such as Virginia and North Carolina, though the deep-seated racism of the American South—the terrible heritage of slavery—still prevented him from winning in the "deep South."

And Obama is not just any Afro-American. He has an African name with a Muslim middle name, Hussein. Indeed, Obama has Muslims in his family, though he himself is a Christian. (4) The idea that a man with a Muslim name could win a U.S. election just seven years after 9/11 was as startling as the election of a Black president itself. Muslims throughout the world rejoiced, hoping that Obama would end the one-sided support of the U.S. for Israel, withdraw U.S. troops from Iraq and Afghanistan, and bring to an end George W. Bush's anti-Muslim "war on terror."

Overlooked in the joy of the moment was the Democrats' promise to actually escalate the war in Afghanistan. Certainly, the progressives and many Muslims reasoned, the Democrats made this promise simply to win some wavering voters who were confused about the real nature of Bush's so-

called war on terror. But as it turned out—unlike Obama's now broken promise to close down the U.S. concentration camp on the Guantanamo military base that the U.S. government maintains in Cuba against the will of the Cuban government and people—this was one promise Obama was destined to keep.

Within the United States, Muslims looked for an an end, at least at the federal level, to the wave of racist and Islamophobic frame-up trials where poor Muslim defendants—almost all people of color—were framed up on charges of planning terrorist attacks.

The FBI would send agent-provocateurs—frequently convicted criminals who were willing to do the FBI's bidding—into a poor Muslim community. The provocateur would then draw impoverished young men into a "terrorist plot" that was invented by the FBI itself. The young men would then be indicted by grand juries—grand juries almost always do the prosecutors' bidding—on charges of having planned the FBI-inspired "terrorist" attacks. (5) Legally this is known as "entrapment." They would then be duly convicted by juries and given decades-long prison terms for violating the "anti-terrorist" laws.

Obama, at least on paper, has the authority to fire Robert Mueller—appointed FBI director under Bush—who bears responsibility for these illegal entrapment tactics in his capacity as FBI director. In addition, Obama has under the U.S. Constitution the power to pardon the victims of these provocations and judicial frame-ups, which would lead to their immediate release from prison and wipe clean their criminal records.

Instead, the Obama administration approved a raid by the FBI in September 2010 on activists associated with the Freedom Road Socialist Organization, anti-war organizations, and trade unions for violating a Clinton-era law that forbids Americans from giving any "material assistance" to organizations that the U.S. State Department deems "terrorist." (6) These "terrorist organizations" included not so long ago the South African National Congress when it was headed by Nelson Mandela.

Organizations deemed "terrorist" by the U.S. State Department have no right to appeal this designation through any judicial process whatsoever. The policy is particularly hypocritical because the U.S. government has long supported so-called "special wars," which are fought with *terrorist methods* such as assassinations of individual leaders, kidnappings and torture. According to reports in the U.S. media, the misnamed "war on terror"—fought with *terrorist methods*—has been greatly expanded under Obama.

Obama has refused Venezuela's request for the extradition of Luis Posada Carriles, who has been implicated in the bombing of a Cuban airliner in 1976 that killed all 73 passengers on board. Nor has his administration moved to try Posada in U.S. courts. Instead, it has held five Cuban intelligence officers in prison—known as the Cuban Five—who were infiltrating these U.S.-supported terrorist organizations in an attempt to prevent more terrorist attacks on Cuba.

If the Obama administration wanted to fight a real war on terror, it could begin by either extraditing Posada to Venezuela or move to try Posada in U.S. courts. The president could also use his pardon powers to free the Cuban Five, allowing them to return to their families in Cuba. So far, Obama has shown no signs of moving in this direction. On the contrary, the terrorist Posada is walking around a free man while the Cuban Five languish in prison.

Obama refuses to allow President Aristide to return to Haiti

On Haiti, which is of special interest to the African American community, the Obama administration continues to block the return of elected Haitian president Jean Bertrand Aristide, who was illegally overthrown in a coup during the Bush administration. This despite overwhelming evidence that Aristide and his Lavalas party retain the support of the majority of the Haitian people. Indeed, elections are scheduled to be held in Haiti under a U.S.-dominated U.N. occupation in which Lavalas is specifically banned from running.

After the terrible January 2010 Haitian earthquake, which killed hundreds of thousands of people and injured hundreds of thousands more, Obama further insulted the Haitian people by appointing of all people George W. Bush, the man who bears primary responsibility for the kidnapping and overthrow of President Aristide, and Bill Clinton—himself no friend of the Haitian people—to head the U.S. post-earthquake "relief" effort.

The New Deal that wasn't

If Obama's foreign policies and civil liberties record differs little if at all from his predecessor—and is if anything arguably even worse—Obama's domestic economic and social policies to the surprise of the non-Marxist progressives have not been much better.

Obama did launch a "stimulus program" of deficit spending at the federal level in an attempt to hasten recovery from the "Great Recession." In a genuine parallel with Roosevelt's New Deal, the increased spending by the federal government has just about offset the large cuts in government spending at the state and local levels but no more.

But unlike the New Deal years, the Obama administration has stubbornly refused to launch a Works Project Administration-type program where the federal government would hire unemployed workers directly and employ them on useful public works. This is despite the fact that Hurricane Katrina showed that such public works are desperately needed. Instead, Obama's approach has been to hope that the increased effective monetary demand created by federal government deficit spending—and the Federal Reserve System's inflationary monetary policy—will lead to a rise in the rate of profit for private businesses resulting in them rehiring some of the workers laid off during the "Great Recession."

Therefore, Obama's policy response to America's huge unemployment crisis amounted to nothing more than to give the economy a gentle kick through fiscal stimulus, including more regressive tax cuts for business, in the hope of hastening the arrival of the next upswing in the industrial cycle.

The arrival of a purely cyclical upturn that the Obama administration is counting on will reduce the level of unemployment—until the next inevitable capitalist crisis of generalized overproduction of commodities sends unemployment soaring once again. This is not a serious program for combating the growing crisis of chronic mass unemployment, which is leaving tens of millions of people—particularly young people—without any prospect of ever getting a decent job.

Obama's and Clinton's policies toward unemployment

Obama's policy on unemployment is a replay of the tactic followed by the last Democratic president, Bill Clinton. Clinton defeated George H.W. Bush largely due to the recession of the early 1990s—a recession far milder than the "Great Recession." Clinton's election also raised hopes among progressives that the already long years of Republican reaction were coming to an end—though not to the same extent as Obama's election did. The slow recovery from the early 1990s recession enabled the Republicans to gain control of the U.S. Congress, later enabling the Republicans to gain control of all three official "branches" of the U.S. government—executive, legislative and judicial—plus the unofficial fourth branch, the Federal Reserve System, when the Republican-dominated Supreme Court handed the presidency to George W. Bush in 2000.

Right after the election of November 1994 that went so badly for the Democrats, the industrial cycle finally turned upward—not due to any policies of the Clinton administration but rather due to the operation of the internal mechanisms of the cycle that I examined in my posts. This didn't prevent the Clinton administration from taking credit for an event that it had nothing to do with. This timely—for Clinton—purely cyclical upturn allowed him to win re-election in the November 1996 presidential election. Obama is hoping against hope that the industrial cycle will finally enter a strong enough upward phase over the coming two years to make possible his re-election in the November 2012 presidential elections. (7)

Health care

And what about health care reform? The U.S. is practically the only advanced capitalist country where health care is not considered a basic human right. Obama made clear that as soon as he assumed office he would work closely with the discredited and repudiated Republican Party on health care reform. He virtually offered to give the Republicans a veto over his health care proposals.

This, of course, put "single payer health care," not to speak of genuine socialized medicine, off the agenda from the very start. Unfortunately, the progressives failed to build an independent movement to demand single-payer health care—not to speak of socialized medicine—to pressure Obama and the new Democratic Congress. Instead, they put all their hopes in Obama and the Democrats.

When the Republicans refused to support any health care reform whatsoever, Obama finally cobbled together a "reform" centered on the private for-profit insurance companies—who are the main cause of the health care crisis to begin with. Instead of providing universal single-payer health insurance similar to Medicare for seniors, the "reform" forces people to purchase insurance from the private for-profit insurance companies.

At first, Obama seemed to be considering a so-called "public option"—itself far short of single payer—that would compete with the private insurance companies. But when a few right-wing members of the Democratic Party complained, Obama dropped this proposal without a serious fight. This despite the fact that Democrats enjoyed massive majorities in both the House and Senate. The Obama reform excludes undocumented workers altogether, as well as aid for abortions. And the proposal doesn't even go fully into effect until 2014.

The Republicans are indicating that if they emerge victorious in the election as expected, they will attempt to repeal Obama's reforms altogether, or at least a significant portion of them, before they even go into effect.

Warning signs the progressives ignored

In fact, there were many warning signals even before he took office that Obama would follow policies that would differ little from that of his hated predecessor. As the financial panic reached its climax in October 2008, Obama, then a Democratic U.S. senator from Illinois, worked closely with the outgoing Bush administration and its secretary of treasury Henry Paulsen—former head of the powerful Goldman Sachs bank—in carrying out the unprecedented bank bailout. The bailout represented a record-breaking transfer of wealth from the U.S. taxpayers to the billionaire bankers whose speculative and predatory loans had poured gasoline on the spreading crisis of overproduction fire—especially in the home building industry.

Like other backers of the bailout, Senator Obama supported it on the ground that a severe recession and sharply rising unemployment would be prevented by the bailout. Therefore, workers would benefit indirectly by getting to keep their jobs. Despite these promises, unemployment promptly soared and millions of workers lost their jobs, and many were thrown out of their homes as well.

Later it was explained that what was really meant was that the bailout was necessary not to prevent a severe "recession"—that was unavoidable—but rather to prevent a full-scale repeat of the 1930s Great Depression—or maybe something even worse. These explanations came from the very same people who for years had been boasting about the great vitality of the "American free-enterprise system" and dismissing out of hand any suggestion that this system could ever again breed another serious economic crisis remotely like the 1930s.

About the only achievement that Obama and the Democrats can point to is that *official* unemployment is only a little over 15 million in the United States—about the same as the Depression in absolute terms but lower in percentage terms—instead of 30 or 40 million or so that would match or exceed the official percentage of unemployed workers during the 1930s. Needless to say, whenever Obama boasts of this "achievement," his standing in the polls plummets.

Republican resurgence

As the Obama administration and the massive Democratic majority in Congress have continued with a few modifications the policies both at home and abroad of their reactionary Republican predecessors, the administration's progressive supporters have become increasingly demoralized. Many of them are likely to sit out the mid-term congressional and state and local elections scheduled for early next month. Under the U.S. two-party system of heads I win tails you lose, this is equivalent to voting for the Republicans.

Other workers in frustration and shocked by Obama's policies, which have failed to put a dent in the growing crisis of long-term mass unemployment, are planning to vote Republican in a protest against the Democratic Party's policies. Needless to say, this kind of "protest vote" will accomplish nothing for the workers whether employed or unemployed.

The leaderships of the AFL-CIO union movement, the NAACP (the leading African American organization) and other progressive groups held a huge rally in Washington on Oct. 2. While avoiding a call for a vote for the now increasingly discredited Democratic Party in so many words—they didn't dare to do that—they instead called on the demonstrators to come out to vote en masse in the approaching Nov. 2 elections.

The demonstration was called when it was already too late for the unions and other organizations representing working people to put up their own candidates, independent of the Democrats and Republicans, before the election. So the call to vote en masse was a shamefaced way of calling on the workers to turn out and vote once more for the Democrats.

The contradiction was best expressed in the speech given by the 83-year-old African American actor, musician and long-time supporter of all progressive causes Harry Belafonte. Unlike most of the speakers, Belafonte eloquently denounced the wars that are being fought by the U.S.

government. But he still begged his listeners to turn out and vote on Nov. 2. But who are they supposed to vote for? Though Belafonte didn't say so, he obviously meant they should vote for the Democrats, the very party that is carrying out the wars that he so eloquently denounced!

I have concentrated on politics in the United States, the country that I know best, but the political trends here seem to be similar to those in many other imperialist countries. In Europe, far-right-wing "anti-immigration" parties using themes similar to the Republicans in the U.S. are making alarming gains in elections, while the "left" parties are losing seats.

Progressives are blaming the debacle of the Obama presidency on the "timidity" of the Democrats and President Obama's personal shortcomings as a leader. If only Obama was cut from the same cloth as Franklin Roosevelt, the progressives complain, and if only the Democrats had some "backbone," everything would have turned out differently!

Marxists take a different approach than progressives when it comes to analyzing political trends. Marxism teaches us that in analyzing political events such as the current resurgence of the U.S. Republican Party and gains by the far right in Europe, we should not look at personal characteristics and failings of individual political leaders but rather to the underlying economic and class forces that are operating under the surface. What are the economic forces that are driving the U.S. back into the hands of Republican reaction just two years after the November 2008 election?

This brings us back to the question of the relationship of the economic ideas of Karl Marx and John Maynard Keynes that was raised again by John Bellamy Foster in the October 2010 issue of *Monthly Review* and his other recent articles praising Keynes.

Marx and Keynes

Deep divisions exist among different Marxist schools about the significance of Keynes and his work. All Marxists—including Foster—do agree that Keynes was a pro-capitalist or "bourgeois" economist. Where the differences begin is whether the economic theories of Keynes and Marx are compatible. Do Marxists have anything to learn from Keynes? Can elements of Keynes's thought be incorporated into Marxist economic theory or even into the Marxist program? After all, Marx himself learned a great deal from bourgeois economists who came before him. Why can't we enrich Marxism by studying a prominent bourgeois economist such as John Maynard Keynes, who happened to live after the time of Marx?

If Keynes's economic theories are basically sound and in the interests of the great majority of the people, the prospects for carrying out the political and economic program of the progressives should be good provided that the progressives can find and elect leaders who are genuinely committed to progressive policies. A repeat of the betrayals by Obama and the other leaders of the U.S. Democratic Party in this case is not inevitable in the future.

But if Keynes's economic theories are largely incorrect, then the entire progressive program is built on sand. In this case, Obama's policies do not reflect his own lack of progressive convictions and commitment but rather the hopeless contradictions of the progressive political and economic program itself. John Bellamy Foster is therefore to be commended for raising the question of Keynes's economic theories and their relationship to those of Marx, whether or not we agree with Foster's conclusions.

Two families of Marxist crisis theory

In my main posts, I explained that Marxist crisis theories can be divided into two great fractions. One camp stresses the problems of *producing* surplus value. The basic cause of crises, the supporters of these schools hold, is that periodically the rate of profit defined in value terms is *too low* to maintain the level of capitalist investment necessary to maintain capitalist prosperity—or in Marxist terms, too low to maintain expanded reproduction. Investment slumps, factories close, workers are laid off and the economy is thrown into crisis.

Perhaps the most articulate and influential adherents of the schools that take this approach are the followers of Henryk Grossman (1881-1950), a prominent Marxist of Polish-Jewish background who wrote in the first half of the 20th century, and his follower Paul Mattick (1904-1981), a self-educated German worker who immigrated to the United States to escape Hitler and developed Grossman's ideas during the second half of the 20th century. I will call these schools of Marxist crisis theory the "falling rate of profit" schools.

The second Marxist family of crisis theories emphasizes the problems of *realizing* surplus value once it has been produced. Let's call this family of crisis theory the "realization of surplus value" schools. Almost all these schools are underconsumptionist. They believe that capitalist crises—or

capitalist economic stagnation—is caused by a rate of surplus value that is *too high* for the workers to buy a sufficient share of the commodities they produce so that periodically the capitalists are unable to sell the growing mass of commodities produced.

The striking thing is that these two fractions of Marxist crisis theory have *exactly opposite crisis theories*! The falling rate of profit school claims that the only way the capitalists can get out of a crisis is to increase the rate of exploitation of the workers. If the rate of surplus value and thus the rate of profit is high enough, a rising rate of profit causes capitalist investment and the capitalist economy to recover. Or in Marxist language, the conditions of expanded reproduction are restored. Otherwise, the crisis drags on until either capitalism is overthrown by the workers or the capitalists finally succeed in increasing the rate of surplus value sufficiently to restore capitalist expanded reproduction.

The underconsumptionist schools draw the exact opposite conclusion. To get out of a crisis, the buying power and the consumption of the impoverished mass of the people must be increased! If it isn't, stagnation and mass unemployment will drag on causing either permanent economic stagnation or world war.

Different attitudes toward Keynes by the two great fractions of Marxist crisis theory

The falling rate of profit school of Marxists holds that Keynesian measures are bound to fail because the cause of the crisis is that the rate of surplus value is too low to support a rate of profit high enough to encourage sufficient investment that alone can restore prosperity on a capitalist basis.

Therefore, the only way out of a capitalist crisis is either a socialist revolution or a defeat of the working class by the capitalists of sufficient magnitude that increases in the rate of surplus value finally restore the conditions of expanded reproduction. Therefore, according to the falling rate of profit school, reformist Keynesian policies, no matter how well meaning, that attempt to restore the buying power of the masses of people (effectively reducing the rate of surplus value) will only end up worsening the crisis.

If the falling rate of profit school is correct, the prospects for progressive policies under current economic conditions is bleak indeed. Unless the workers are prepared to make an immediate socialist revolution, the only way out of the current unemployment crisis is through the kind of reactionary economic policies that the U.S. Republican Party and other extreme right-wing parties in the other capitalist countries are advocating. Therefore, since the workers don't seem ready to seize political power in the immediate future in any capitalist country, the prospects of struggle against right-wing capitalist reaction is bleak indeed.

The underconsumptionist Marxists—represented today largely by the Monthly Review School—believe on the contrary that a Keynesian program that restores the buying power of the masses can, if carried out on a sufficiently large scale, pull the economy out of depression and stagnation. They, in contrast to the first school, are highly sympathetic to Keynesian progressives and praise what they see as Keynes's great contributions to economics.

Therefore, a Keynes-inspired progressive policy aimed at greatly reducing unemployment through government policies aimed at restoring the buying power of the people can work, at least in principle, according to underconsumptionist Marxists.

John Bellamy Foster is not optimistic about the possibilities of actually carrying out a progressive Keynesian policy of restoring "monetarily effective demand" under current political conditions. And if the Republicans do make substantial gains in the Nov. 2, 2010, elections, his optimism will hardly be increased.

Foster believes that resistance by what he calls "monopoly-finance capital"—the big financial interests—are blocking the road to a progressive Keynesian policy of restoring effective demand and employment. But Foster defends Keynes's basic economic theories and holds that they are compatible with and indeed partially based on Marx's own work. He therefore believes that a Keynes-inspired progressive solution to the current unemployment crisis without replacing capitalism with socialism is at least theoretically possible. But to achieve that solution, the resistance of the "monopoly-finance capitalists" must be broken—much as it was, according to progressive historians, during the New Deal days. The problem for Foster is that he sees no prospect of achieving this again within the foreseeable future.

A third approach

In my blog posts, I developed a third approach to crisis theory. First, I emphasized that surplus value must indeed first be produced before it can be realized, a fact downplayed by the

underconsumptionists. But what the falling rate of profit schools tend to forget is that profit is not just surplus value, it is surplus value *realized in money form*.

After many long years of thinking about this question and studying the hopelessly contradictory explanations of crises given by the two fractions of Marxist crisis theorists—each with favorite quotes from Marx that seemed to back up their contradictory positions—I have come to the conclusion that periodically capitalist production runs ahead of the *combined purchasing power* of the capitalists and their dependents on one side and the working class that produces the surplus value on the other. Therefore, the problem of "monetarily effective demand"—the problem of the *periodic* inability of capitalist society to buy back all the commodities it produces—is a real one that cannot simply be reduced to the movement of the rate of profit in value terms.

In their proposals to combat crisis and mass unemployment, Keynesians aim at restoring the purchasing power of society without transforming capitalism into socialism. The Keynesians believe that if the right policies are followed by the government and central bank in the first place, the purchasing power of capitalist society—the combined purchasing power of the capitalist class, its dependents, and the working class—can be maintained and both acute cyclical crises and chronic mass unemployment can be avoided.

In my opinion, the Keynesians and their progressive supporters are grappling with a very real problem, but since the roots of the problem lie in the nature of the commodity relationship of production itself, they go much deeper than the Keynesian progressives realize.

For anybody who wants to study my proposed solution to the contradictory explanations Marxists advance to explain capitalist crises, they can read my blog posts. The approach toward capitalist crises developed in these posts will therefore form the foundation of my views on the relationship between Keynes and Marx that I will develop in my coming replies.

Next month I will examine John Bellamy Foster's case for the basically compatible nature of the economics of Marx and Keynes.

Are Keynes and Marx Compatible? Pt 2

John Bellamy Foster's case for Keynes

I explained in last month's reply that John Maynard Keynes is the leading economist of non-Marxist progressives. Marxists themselves are sharply divided on the nature and usefulness of Keynes's work and its relationship to Marxism.

As a rule, Marxists who support the Grossman-Mattick school or other schools that blame capitalist crises on the periodic inability of the capitalists to *produce sufficient surplus value* to maintain capitalist prosperity are quite hostile to Keynes's work. According to these schools, the only way out of a capitalist crisis *within the limits of the capitalist system* is to increase the rate of surplus value—the rate of exploitation of the workers—and thus restore an "adequate" rate of profit for the capitalists.

Any attempts by a government inspired by Keynes's theories to restore the purchasing power of the people during a capitalist crisis only makes it more difficult for the capitalists to restore an adequate production of surplus value. Therefore, the "not enough production of surplus value" schools of Marxist crisis theory hold that Keynesian policies only make a capitalist crisis worse. By spreading dangerous reformist illusions about the possibility of improving the condition of the working class and its allies *within the capitalist system*, these schools of Marxists claim the "Keynesian Marxist" tendencies such as the Monthly Review School build support for opportunist reformist tendencies within the workers' movement.

Left-wing Marxists

These strongly "anti-Keynesian" Marxists are very left wing and want nothing to do with non-Marxist progressives who want to improve the conditions of the workers and other exploited people in the here and now.

But what about a situation where workers and their allies are willing to struggle to defend their standard of living and basic rights from the attacks of the capitalists but do not see—or rather do not yet see—the need for the revolutionary seizure of power by the working class? Don't we run the risk of discouraging all workers' struggles if we agree with the bosses that partial struggles waged by the workers within the capitalist system will only make an ongoing crisis worse? If the workers are unable to engage in partial struggles with at least some prospect of winning partial victories in the here and now, how will they ever accomplish the far more difficult task of seizing political power and then using it to build a socialist society?

However, if the "not enough surplus value" schools of Marxist crisis theory are correct, we have to face the consequences no matter how unpalatable they may be politically. Marx was above all a revolutionary, but he could not be an effective revolutionary without being a scientist. We have no alternative but to pursue economic science to wherever it leads us.

But, as we know, there is an opposite family of Marxist crisis theory that is far more open to Keynesian arguments. The underconsumptionist schools of Marxist crisis theory see the inability of the working class to buy back a sufficient percentage of the commodities they produce as the cause of both periodic acute cyclical crises and the economic stagnation and mass unemployment that follow in the wake of such crises.

Like all Marxists, these "underconsumptionist Marxists" or "Keynesian Marxists" believe that only the transformation of capitalism into socialism can provide a final solution for the ills of capitalism—including the problem of cyclical crises, the growth of monopolies, economic stagnation, and the mass unemployment that cyclical crises breed. But the underconsumptionists believe that Keynesian measures aimed at restoring the purchasing power of the working class and other oppressed sections of the population during a crisis can improve the conditions of the working class and its allies under the capitalist system.

They therefore favor working with non-Marxist Keynesian progressives in fighting for Keynesian economic measures they believe will improve the conditions of the workers under the present system. U.S. Marxist economist Paul Sweezy, who founded the *Monthly Review* magazine, and John Bellamy Foster, who now edits it, have both been leaders of this school of Marxist thought.

Foster makes his case for Keynes

Throughout 2010, *Monthly Review* and its editor John Bellamy Foster have been making the case for the basic compatibility of the work of Marx and Keynes. Indeed, it can be said that in the wake of the crisis that began in 2007 Foster has been putting much more emphasis on the relevance of Keynes than of Marx.

Rather than rejecting Foster's views on Keynes dogmatically on the grounds that Keynes was a bourgeois economist and that we have nothing to learn from him, let's objectively examine Foster's "case for Keynes."

"In any attempt to address the role of finance in the modern economy," Foster writes in the October 2010 edition of *Monthly Review*, "the work of John Maynard Keynes is indispensable." Foster explains: "In 1933 Keynes published a short piece called 'A Monetary Theory of Production,' which was also the title he gave to his lectures at the time. He stressed that the orthodox economic theory of exchange [Foster is referring to the reigning marginalist theory—SW] was modeled on the notion of a barter economy. Although it was understood that money was employed in all market transactions under capitalism, money was nonetheless 'treated' in orthodox or neoclassical theory 'as being in some sense *neutral*.' It was not supposed to affect 'the essential nature of the transaction' as 'one between real things.' In stark opposition, Keynes proposed a monetary theory of production in which money was one of the operative aspects of the economy."

Hopefully, Foster and/or other writers associated with *Monthly Review* will now be paying more attention to the whole question of the nature and theory of money than has been the case in recent times. Paul Sweezy did write insightfully on the relationship between money and commodities, but that was many decades ago. Sweezy (and Baran) completely ignored the question of monetary theory in "Monopoly Capital," first published in 1966, just like they ignored value theory in this work, which is widely seen as the bible of the Monthly Review School. (1)

Since the 1980s, *Monthly Review* writers, beginning with Paul Sweezy himself, have written a lot about credit and "financialization"—the vastly increased role of credit in the economy—but have had little to say about the nature of money.

Money and credit relations are by no means identical, though they are often confused with one another by bourgeois economists. What is true is that money—not non-monetary commodities—is the foundation of the credit system. Therefore, in order to understand the nature and limits of credit, one must first grasp the nature of its foundation—money.

If Foster now turns his attention to Marx's writings on money, this will mean making a turn toward studying Marx's whole theory of value in a new and more profound light. It will mean studying the nature of commodities, labor value, the relationship between concrete labor, which produces use values, and abstract labor, which produces value—the form of (labor) value where the value of one commodity is measured in terms of the use value of another commodity, thus excluding the possibility of "non-commodity money." The whole relationship between the three different forms of money—real (commodity) money or gold, token (paper) money, and credit (checkbook) money—and the different laws that govern them will have to be examined. Certainly, in my view at least, the grasping of these economic categories is indispensable if we are "to address the role of finance in the modern economy."

The problem is that Foster, though he is an avowed Marxist and indeed is the leader of a major school within Marxism—the Monthly Review School—is referring to the indispensability of *Keynes* and not Marx. The danger is that Foster and by extension the Monthly Review School will base their future work on Keynes and not on Marx.

Or is this really a danger? If the theories of Keynes and Marx were the same with only terminological differences as regards commodities and money, there would be no danger at all. The same would be true if Keynes was correct against Marx. In the latter case, Marxists would need to "unlearn" Marx and instead master Keynes. Of course, it is also possible, and I believe this is the case, that while Keynes and Marx did agree on *some things* this partial agreement does not prevent their overall theories of finance—money and credit—from being profoundly different.

To what extent are Marx and Keynes compatible?

Now, as I explained in the main posts Marx and Keynes *did agree* on some aspects of monetary theory and the determination of interest rates. Closely related to the views on money they have in common, Marx and Keynes also agreed that capitalism, at least when left to its own devices, is an extremely unstable system.

But does this mean that the views of Marx and Keynes are compatible overall? If we answer in the affirmative, Keynes has the advantage over Marx of having lived more recently—closer to our own time—and therefore perhaps put more emphasis on the relationship between finance and production than we find overall in Marx's work.

And for those of us in the English-speaking world, Keynes might be easier to understand, since he wrote in English and did not use terminology borrowed from early 19th-century German classical philosophy as Marx sometimes did.

This is not to say that Keynes's most important work "The General Theory of Employment, Interest and Money," first published in 1936, is light bedtime reading. It is not. But Keynes, at least in some of his less "technical" writings, can indeed be a pleasure to read. Therefore, there is no alternative but to examine closely the actual economic theories of Marx and Keynes. Let's begin with Marx, because he lived and wrote earlier than Keynes did.

Marx's theory of value and surplus value

Marx's theories on "finance"—money, credit and interest rates—are built on his basic theory of labor value and surplus value. Basing himself on the law of labor value that he took over from classical political economy and perfected, Marx's theory of surplus value holds that even if all commodities including labor power are sold at their values, the workers produce surplus value by performing unpaid labor for the capitalists and landowners. Surplus value once it has been produced is in turn divided between the two main property-owning classes of capitalist society: the capitalists, who appropriate their share of the surplus value as profit, and the landlords, who appropriate their share of the surplus value as ground rent.

Profit, in turn, is divided into interest appropriated by the money capitalists and the profit of enterprise that goes to the industrial capitalists—owners of productive capital—and commercial capitalists—owners of commodity capital. On these subjects, I think Foster himself will agree there is little in common between the economic theories of Marx and Keynes. This raises the question, then, on how similar can the theories of Marx and Keynes on finance—money, credit and interest rates—really be if their underlying theories of value and the nature and the origin of profit—profit of enterprise plus interest—are so different?

What we can say here is that if you reject Marx's law of labor value—like, for example, the "neo-Ricardians," whose views I have examined and criticized in my replies dealing with the transformation problem and Okishio's theorem here and here—and also reject Ricardo's law of labor value as well as Marx's law of surplus value—you of course might prefer Keynes's theory of money and interest rates precisely because it is unencumbered by Marx's "incorrect" views on value and surplus value.

But Foster does not and before him Paul Sweezy did not reject Marx's law of value and surplus value. Sweezy was very critical of the "neo-Ricardian" school for rejecting Marx's—and Ricardo's—law of labor value. Therefore, logically, though he has, as far as I know, up to now written little about them, Foster should be expounding Marx's basic theories of money, credit and interest rates including Marx's view—but not Keynes's view—that interest is a fraction of the total surplus value.

A weakness in the Monthly Review School up to now, in my opinion, has been that it has paid little attention to exactly what determines the division of the profit—(surplus value minus rent)—into the profit of enterprise and interest. The *importance* of examining the forces that determine the division between the profit of enterprise and interest and its effects on the employment of workers and machines under the capitalist mode of production is something that most Marxists, including the Monthly Review School, *really could learn from Keynes*. Perhaps Foster and other members of the Monthly Review School will be examining this crucial question in their future work. (2)

But before we dive into this question—also examined in my main posts—we should examine the background of Keynes's break with the economic "orthodoxy" of his time. This takes us back to the debate about the possibility of a general glut or overproduction of commodities that occurred among the political economists during the first decades of the 19th century. Both Keynes—by the

1930s—and Marx were well aware of this debate, and both Marx and Keynes closely studied the arguments of both sides.

On one side of this debate were arrayed the Swiss economist Simondi Sismondi (1773-1842) and the English economist Thomas Robert Malthus (1766-1834), who not only saw a "general glut" of commodities as possible but indeed a pressing danger. On the other side were the French economist J.B. Say (1767-1832), James Mill (1773-1836) and David Ricardo (1772-1823). These latter economists claimed that a general glut of commodities was impossible.

Say's so-called law of markets, the quantity theory of money, and the neutrality of money

J.B. Say "proved"—some authorities attribute the proof to James Mill—that a *generalized* overproduction of commodities was impossible. Say and his supporters held that in the final analysis commodities are purchased by other commodities.

According to the supporters of Say's Law, money as a means of circulation makes commodity exchange more efficient but it does not change the essence of the exchange of commodities. Therefore Say and his supporters claimed that in order to analyze commodity exchange, it is proper to abstract money. Once we abstract money, we see that while the overproduction of particular commodities combined with an underproduction of other commodities is indeed possible, a *generalized* overproduction of commodities is not.

Suppose the supply of commodities was suddenly doubled. We would, according to Say's Law, by doubling the quantity of commodities by definition be doubling the means of purchasing commodities. Say's Law is popularized by the saying that "supply creates it own demand."

Every child knows that commodities are generally purchased not with other commodities but with money. But Say and the liberal trend in economics in general—today continued by the neoliberals—see money simply as a means of circulation. (3) But couldn't a shortage of money relative to commodities represent a general overproduction of all commodities relative to money? Not at all, the liberal school—Say, Mill and Ricardo—answered.

Suppose there was a shortage of money. In that case, wouldn't prices including wages fall until the shortage of money vanished? If the total sum of prices were too high relative to the quantity of money at existing prices, prices including wages would fall until the market "cleared." Since both wages and prices would fall together, neither real wages—which, according to the economists in those days on both sides of the debate, would have to include the biological upkeep of the working class and little more—nor real profits would be affected.

Therefore, real wages, real profits and real rents—wages, profits and rents in terms of commodities—could only be affected by changes in the quantity of commodities relative to population but not by the quantity of money relative to commodities. (4)

If money, on the other hand, was too abundant relative to commodities at existing prices, the opposite would happen. Prices and wages would rise—or the purchasing power of money would fall—until the glut of money vanished. Nominal prices would be higher but so would nominal incomes—wages, profits and rents. Real incomes—the amount of commodities that the incomes could purchase would again not be affected.

The economic liberals assumed that the quantity of commodities and the quantity of money would adjust themselves to one another through changes in the general prices level quickly and with little friction—what is today called the "efficiency of markets."

Since the quantity of commodities and the quantity of money change on a daily basis, it was assumed by the economic liberals that the daily movement of prices and wages would keep the quantity of commodities and the quantity of money in balance making a general glut—or shortage—of commodities impossible.

It should also be noted that the quantity theory of money was applied both to metallic money such as full-weight gold coins and to paper money. According to the liberal economists, it made no difference whether additional money came from newly opened gold mines or from the printing presses of the Bank of England—or the virtual electronic "printing presses" of the Federal Reserve System today—the effect would be the same.

This doctrine is known as the "neutrality of money." Neither a rise nor a fall in the quantity of money within a nation will affect the real wealth of the nation. The only thing that is affected, according to the liberal view, including today's neoliberals (5), by changes in the quantity of money relative to the quantity of commodities is the wealth of the nation measured in terms of money.

But the liberal upholders of the "neutrality of money" hold that—since the wealth of nations consists of the use values of commodities or, as the modern economists prefer to put it, the utilities of commodities relative to subjectively determined human needs—the real wealth of nations is not affected by the quantity of money. Money merely circulates the commodities that constitute the real wealth of nations.

This view that money is "neutral" is in sharp contrast to the views of the earliest political economists known as the mercantilists. Both Marx and Keynes were well versed in mercantilist literature. The mercantilists held that the wealth of a nation was determined by the total quantity of money—in their day gold and silver—in the nation.

According to these economists, if the quantity of gold and silver in a nation increased, domestic trade would boom, production would rise and the wealth of the nation would increase. If the amount of gold and silver declined, trade would be depressed and the wealth of the nation would decay because a lack of monetarily effective demand would make production unprofitable. To those versed in modern Keynesian theories about the importance of "effective demand," mercantilist literature has a surprisingly modern ring.

Therefore, in sharp contrast to their liberal successors, the mercantilists held that the wealth of a nation is ultimately reducible to the quantity of money—gold and silver—within the nation. While the economic liberals advocated "free trade," the mercantilists had supported massive intervention by the state to increase the quantity of gold and silver money in the nation.

This meant that—leaving aside nations that had major gold and silver mines on their own territories or in their colonies—any increase in the quantity of money in a given nation had to be at the expense of other nations. The only way a nation that did not itself produce gold and silver could increase the quantity of gold and silver in its economy was to run a positive balance of trade and payments.

A negative balance of trade and payments would drain away the gold and silver of the nation, according to the mercantilists, causing interest rates to rise, the internal market to contract, and of special interest to Keynes, production and employment to decline. Since all nations could not possibly run balance of trade and payments surpluses at the same time, the mercantilist doctrine implied a merciless life and death struggle for markets among nations and by extension periodic wars between the trading nations. Not a pretty picture.

In contrast, the liberal quantity theory of money implied that all the trading nations can thrive together and therefore all benefit equally by free trade. This view was further developed by David Ricardo, who first developed the theory now known as comparative advantage. I have dealt with this question at length in my main posts. It forms together with Say's Law and the quantity theory of money the "trinity" of economic liberalism. These three theories rise or fall—and with Marx and Keynes I believe that they fall—together.

We therefore see that Marx and Keynes do agree on some things as against the economic liberals. Both Marx and Keynes held that a "general glut" or a generalized overproduction of commodities was possible. Both rejected the quantity theory of money and the neutrality of money. On what is called today "monetary theory," both Marx and Keynes were closer to the mercantilists than they were to the economic liberals.

Did Keynes borrow from Marx?

In his October 2010 article, Foster provides evidence that Keynes indeed borrowed from Marx, a fact that Keynes chose to conceal in his "General Theory." Since Keynes did borrow from Marx, to what extent is Keynes of the "General Theory" a "Marxist," even if an unacknowledged one? If Keynes was a "Marxist," he was a very peculiar one, because he remained a supporter of capitalism against socialism in general and a champion of British imperialism in particular. Let's examine the evidence that Foster has brought to light on this question.

Foster writes: "…Keynes distinguished between what he called a 'co-operative economy' (essentially a barter system) and an 'entrepreneur economy,' where monetary transactions entered into the determination of 'real-exchange' relations. This distinction, Keynes went on to explain in his lectures, 'bears some relation to a pregnant observation made by Karl Marx…. He pointed out that the nature of production in the actual world is not, as economists seem often to suppose, a case of C—M—C', i.e., of exchanging commodity (or effort) [Keynes cannot get himself to blurt out the word "labor" since if he did he would be flirting with the Ricardo-Marx law of labor value—SW] for money in order to obtain another commodity (or effort). That may be the standpoint of the

private consumer. But it is not the attitude of business, which is a case of M—**C**—M', i.e., of parting with money for commodity (or effort) in order to obtain more money.'"

Here Keynes is indeed borrowing from Marx. But exactly what did Keynes borrow? What Keynes refers to as the "attitude of business" is actually Marx's general formula for capital M—**C**—M'. Marx contrasted this to C—**M**—C of simple circulation, not C—**M**—C'. Indeed, Keynes's slip referring to **C**—**M**—C', an expression that Marx did not use, is extremely significant as we will soon see.

Marx explains that even assuming simple circulation of commodities, C—**M**—C, an overproduction of commodities is theoretically possible. Just because A has produced a commodity and sold it at its value for M doesn't mean that A must immediately exchange M for C. Or what comes to exactly the same thing, just because I have just sold doesn't mean I must immediately buy.

It is here that the theoretical *possibility* of a crisis of generalized overproduction is established. Marx already established this in the third chapter of Volume I of "Capital." In the same chapter, Marx already rejected the quantity theory of money, which claims that if there is an excess demand for money as opposed to commodities, prices will fall, thereby demonstrating the "neutrality of money."

But Marx does not develop these points there. In "Capital," particularly in Volume I, he is interested in another question, which is much more pressing for Marx, though, as we will see, of no interest to Keynes whatsoever. This question is, exactly where does the excess of M—**C**—M' (M' minus M) come from?

Starting in Chapter 4, Marx develops the M—**C**—M' general formula of *capital*. A capitalist starts with a sum of money of a given labor value M, exchanges it for C—commodities that represent productive forces including labor power of the *same labor value*—and ends up with a commodity C' of a *greater* labor value. Assuming all goes well, the capitalist sells it for M'.

Naturally, there exists the possibility that the capitalist will produce C'—what Marx calls commodity capital—which contains (C' minus C) surplus value in the *form of commodities* that cannot be sold at profitable prices. The problem is that surplus value in the form of commodities is *not yet profit*. To become profit, the aim of capitalist production, the commodities that contain the surplus value, the C', must be exchanged for M', a sum of money that has the same value as C'.

It is the need to transform the commodity form into the money form that caught Keynes's attention.

To Marx, important as this is, it is still secondary to where the the surplus value—whether in commodity form (C' minus C) or money form (M' minus M)—comes from in the first place.

Here Keynes was playing with fire and he knew it. If he were to pursue this question, it would lead right to the question of the *production of surplus value by the unpaid labor* the working class is forced to perform for the capitalists. If Keynes had been willing to explore this question, this would have obliged him to break with his own class. Then he really would have become a Marxist.

This is exactly what happened with the young Paul Sweezy, the most promising Harvard economics student of his generation, who later went on to found the Monthly Review School. But, unlike Sweezy, Keynes showed no interest in doing this, despite the urgings of some of his left-wing friends. He was above all and remained until is death in 1946 a patriot of his class in general and a patriot of British imperialism in particular.

What we do see here is the leading bourgeois economist of the 20th century borrowing, like a naughty child sticking his hands into the cookie jar when he hopes his parents are not looking, from a man who was the leading economist of the working class—the leader of the class enemy from Keynes's point of view.

Keynes was obliged to do this because of the complete bankruptcy of the economic theory developed by the hired champions of his own class. This theory was the marginalism that Keynes had been trained in and advocated as a young economist. The leaders of "neoliberal" reaction have long accused Keynes of being something of a Marxist himself—and in a very small way we see that Keynes was indeed a "Marxist" of a sort. Not surprisingly, in his main work, "The General Theory," Keynes made no mention of his debt to Marx. (6)

What Keynes did not learn from Marx

However, before we get too carried away by Keynes's "Marxism" we should examine what Keynes *did not learn from Marx*. Keynes was unwilling and unable—not because of his lack of intelligence, Keynes had plenty of that, but because of his class allegiance—to explore the origins of surplus

value. He was thus unable to grasp the real nature of value or money or the true nature of interest as a mere fraction of the total surplus value.

Foster explains: "When Sweezy wrote to Keynes's younger colleague Joan Robinson in 1982 about the publication of Keynes's 1930s lecture notes in which he discussed Marx, asking if she had any additional knowledge of this, she replied: 'I was also surprised at the note about Keynes and Marx. Keynes said to me that he used to try to get Sraffa to explain to him the meaning of labor value, etc., and recommend passages to read, but that he could never make out what it was about.'" Quoted in Paul M. Sweezy, "The Regime of Capital," Monthly Review 37, No. 8 (January 1986).

Unfortunately, Foster left this crucial point to a footnote. In my opinion, rather than banishing it to a footnote, Foster should have put it at the center of his articles dealing with relationship between Marx and Keynes.

The marginalist revolution and the possibility of a generalized overproduction of commodities

Keynes himself observed that the liberal view that a general glut of commodities was impossible emerged triumphant—this despite the fact that shortly after the controversy on the possibility of a "generalized glut" ended, the era in which we are still living of periodic capitalist crises of generalized overproduction began. In the Depression decade of the 1930s, Keynes claimed that it was very unfortunate that the supporters of Malthus had not emerged the victors against the supporters Ricardo.

Why did the view that a generalized glut of commodities is impossible emerge the victor among later generations of (bourgeois) economists until the Great Depression banged them on their collective, extremely dense skulls? And why have the (bourgeois) economists tended to return to the view that a "general glut of commodities" is impossible again and again much like a drug addict who can't "kick the habit"?

The dark age of macroeconomics

The editors of *Monthly Review* quote the contemporary economist Paul Krugman, a former advisor to Ronald Reagan who has since moved to the left and emerged not only as an outspoken Keynesian but perhaps the leading non-Marxist progressive economist in the United States today. Like Keynes was in his later years, Krugman in recent years has become obsessed with the possibility of a general glut of commodities, or in Krugman's own words "Depression economics."

The editors write: "To understand the disaster that is present-day economics, it is crucial to recognize that we are living today, not only in the deepest economic crisis/stagnation since the Great Depression, but also—as Paul Krugman declared in his New York Times blog on January 27, 2009—in 'A Dark Age of Macroeconomics,' in which the central discoveries of the 1930s have been forgotten or discarded. 'What made the Dark Ages dark,' Krugman wrote, 'was the fact that so much knowledge had been lost, that so much known to the Greeks and Romans had been forgotten by the barbarian kingdoms that followed.'"

What exactly is "macroeconomics" anyway? After the work of Keynes, bourgeois economics split in two. Traditional marginalism was still taught in the guise of "microeconomics." As we saw, Keynes and his followers were obliged to dump doctrines that were dear to the marginalists because they fit so well into their underlying theories such as Say's law of markets, the quantity theory of money and the neutrality of money. (7)

Even during the heyday of Keynesian economics after World War II, liberal marginalism was taught as the basic economic theory in "microeconomics" classes. But the teaching of marginalism could if necessary be relaxed or tactically disregarded altogether when it came to exploring practical policies that governments and central banks should follow in order to "stabilize" the real-world capitalist economy.

The very need for the field of "stabilization" policy tacitly admits that contrary to the teachings of the marginalists capitalism is in practice a very unstable economic system. If it were stable, as the marginalists hold, there would be no need for "stabilization policy" in the first place. The need for a successful "stabilization policy" was judged particularly necessary during the "Cold War," when the planned economies of the Soviet Union and its allies existed as an alternative economic system.

However, since economics students were still taught marginalism in the form 'microeconomics'—they certainly weren't taught the Marxist law of labor value and surplus value—those young economists who craved consistency when it came to "macroeconomic theory" tended to revert back to the quantity theory of money and the neutrality of money and therefore to Say's Law, which denies the possibility of a general overproduction of commodities. This was

particularly true as memories of the Great Depression faded and finally when the "stagflation" crisis of the 1970s discredited in practice the policies favored by Keynesian economists.

The marginalist revolution 'banishes' the contradictions of capitalism

In the 1870s, the so-called marginalist revolution swept the then emerging field of professional academic economics. Marx, remember, began his analysis in Chapter 1 Volume I of "Capital" by examining the basic contradictions of the commodity relationship of production. Marx was able to show how these contradictions inevitably lead at a certain level of development not only to the split between the capitalist class and the working class, on one hand, and, on the other, to a split between the money commodity and all other commodities. The split between money and commodities makes possible, and at a certain stage of development inevitable, periodic crises of generalized overproduction.

Studying the contradictions of capitalism was natural for Marx, both as an opponent of capitalist exploitation who looked forward to a future society that would be free of class rule and exploitation and as a student of Hegel and classical German philosophy. It was the combination of the recurrent overproduction crises and the consequent growth of monopolies on one side, and the growing conflict between the capitalist class and the working class on the other, that Marx held would eventually lead to the downfall of capitalist class rule and economic exploitation.

The marginalists in order to "refute" Marx, whose main work, Volume I of "Capital," had appeared just before the marginalist revolution swept the universities, began by assuming the contradictions of the commodity relationship of production, such as the contradiction between the use value of a commodity and the exchange value of a commodity, do not exist. Instead, the marginalists held that objects of utility acquire value not because they are products of human labor but because they are scarce relative to subjectively determined human needs.

They therefore began by denying the fundamental contradictions of the commodity at the very beginning of their analysis and thus built right into the foundations of their analysis the assumption that capitalism was a system without contradictions and therefore was the final absolute mode of human production.

A great advantage of marginalism is that it can be easily formalized in mathematical terms. Marginalism makes great use of the methods of calculus and its differential equations—the branch of mathematics that studies rates of change. It seems that the conclusions about the contradiction-free, absolute nature of capitalist production emerges from the equations themselves, when they are in reality already present in the underlying postulates. Or what comes to exactly the same thing, the marginalists assume what they pretend to prove.

This is the beauty of the neoclassical marginalist school of economics. It not only fools the lay public that does not understand and cannot argue with the mathematics. (8) It also fools the (bourgeois) economists themselves. And this is where the capitalist class itself pays a price: It periodically fools the policymakers themselves. Just ask Alan Greenspan, the now-discredited former "maestro" of the U.S. Federal Reserve System.

Marginalism is a classic example of what Marx meant by "ideology" or false consciousness. It fools not only the oppressed but also the ruling class itself. While marginalist economics makes great ideology, it leaves government and central bank policymakers disarmed whenever a severe economic crisis breaks out. It is precisely during a crisis that contradictions of capitalist production such as the contradiction between use value and exchange value, concrete and abstract labor, commodities and their independent value form money, which are normally hidden, suddenly rise to the surface in the absurdity of a crisis of mass poverty being caused by "too much" production.

Keynesian-inspired macroeconomics with its borrowings from the mercantilists, Malthus and, even if unacknowledged, a sprinkling from Marx, is a poor fit with marginalist "microeconomics." While microeconomics tries to be rigorous and mathematical, macroeconomics, reflecting its mixed pedigree, is often muddleheaded and pragmatic.

But it is the very logical flaws of "macroeconomics" that appeal to non-Marxist progressives. They find congenial the view that gaping wounds of capitalist society can be addressed by a series of piecemeal reforms that avoid the root of the problem—the class contradiction between capitalist and wage worker. Non-Marxist progressives do not like to be told that their proposals violate basic economic laws—whether those dreamed up in the heads of the marginalists—or the very real economic laws discovered by Marx and before him the classical political economists.

Are Marx and Keynes Compatible? Pt 3

In the October 2010 edition of *Monthly Review*, John Bellamy Foster wrote that John Maynard Keynes demonstrated that "the economy did not *automatically* [emphasis added—SW] equilibrate at full employment." ("Notes from the Editors")

Here Foster does not in any way distinguish his own views from those of Keynes. He seems to assume that Marx as well held the view that while capitalism does not automatically equilibrate at full employment it can be made to do so if the government and the monetary authorities follow policies designed to achieve full employment. This was indeed Keynes's opinion. But did Marx agree? Is it really possible to achieve full employment under the capitalist system?

Marx and the reserve industrial army of the unemployed

Marx believed that capitalism actually needs what he called the reserve industrial army of labor. By reserve industrial army of labor, Marx meant something more than the extremely narrow definition of unemployment that is given by capitalist governments when they calculate their monthly unemployment figures.

Capitalist governments count as unemployed only those workers who are actively looking for work. They also count as "employed" workers who work only a few hours a week. People who have given up looking for work because they quite realistically realize that no "employer" will offer them a job are not counted as "unemployed" by the authorities.

In contrast, Marx defined the reserve industrial army of labor as consisting of all persons who would take a job if one were actually offered to them. The reserve industrial army, according to Marx, consists of various layers. It ranges from workers who are only occasionally unemployed all the way to the lowest level of the reserve industrial army consisting of people who are chronically unemployed.

For people who belong to this lower layer, employment is very much the exception not the norm. But they can be drawn into active work if an unusual demand for the commodity labor power develops. However, from the viewpoints of the buyers of labor power, such labor power is of low quality, and they will not as a rule buy it if they have any alternative. But the capitalists will buy it if exceptional circumstances render the commodity labor power scarce enough relative to demand.

A good example of this was the "Rosy the riveter" phenomena in the U.S. during World War II, when the exceptional demand for labor power in the war economy drew into active industrial employment housewives who in those years were not normally working outside the home. But why, according to Marx, does capitalism need a "reserve army" of unemployed workers? Why can't capitalism have "full employment" where everybody who desires a job can quickly find one?

The reason, according to Marx, is rooted in the very nature of capitalist exploitation. Unlike the case under earlier modes of exploitative production, such as chattel slavery and serfdom, the workers under capitalism (1) are free to sell their labor power to anybody they choose when they choose or indeed not to sell it at all. Under capitalism, once it has become well entrenched, no one—prisoners excepted—is forced by law or brute force to work for another person. This, along with the ability of any person who either owns or can borrow a sufficient sum of money to buy such "freely offered" labor power, forms the foundation of capitalist "free societies."

What would happen if there was no industrial reserve army?

Suppose a situation of genuine full employment actually existed. By "full employment" (2) I mean a situation where all who want jobs could quickly and easily find employment after a short search and not the kind of "full employment" as defined by our present-day bourgeois economists, where millions are unemployed.

Such a situation wouldn't rule out some "frictional unemployment," as the modern bourgeois economists call it—that is, people between jobs. Some workers might quit their present jobs—a basic right workers have under capitalism that did not exist under slavery and serfdom—for many reasons. Perhaps the workers believe they can get a job with better pay or working conditions. Or workers might seek work that is more interesting or fulfilling. Or they might want to move to another part of the country, perhaps to live closer to friends or relatives.

In addition, individual capitalists might be forced to lay off workers due to declining demand for their particular commodities or services. But if "full employment" really exists, everybody who desires employment who was "between jobs" could find a new job after only a brief search—days or a week or two at most.

If such a situation ever came into being, the "labor market"—the market that brings together both the sellers and buyers of the commodity labor power—would strongly favor the sellers of labor power—the workers—over the buyers of labor power, the capitalists. According to the laws that govern competition, even in the absence of unionization, competition would be minimal among the sellers of labor power.

But fierce competition would rage among the the buyers of labor power. The bosses would attempt to lure workers working for other capitalists by offering higher wages and better working conditions. This situation would not only affect the demand for skilled labor—occasionally acute competition does develop in the labor market among the bosses for skilled labor power—but in the market for unskilled labor as well.

Absolute overproduction of capital

If such a situation arose, this would indeed be be a wonderful situation for the workers, but it would be a nightmare for the bosses. The rate of surplus value, the ratio of paid labor to unpaid labor, would progressively shrink. The conditions that make the production of surplus value possible and therefore capitalist production possible would be destroyed. Indeed, Marx gave a name for such a hypothetical situation. In Volume III of "Capital," he called it an "absolute overproduction of capital." (3)

The absolute overproduction of capital would be a situation where so much (variable) capital has been accumulated that the supply of additional labor power—not just skilled labor power—has been exhausted. Under these conditions, any further investment of capital would fail to increase the mass of surplus value. Indeed, by further increasing the competition among the capitalists for the commodity labor power, it would actually cause the amount of surplus value being produced to shrink.

Measures by capital to prevent absolute overproduction of capital

Marx explained that when the capitalists are even threatened by a danger—to the capitalists, that is—of an absolute overproduction of capital, they do not stand idly by. They take active measures to prevent it from developing.

When the demand for additional labor power increases to the point that the rate of surplus value starts to decline, the bosses react by transforming an increasing portion of the newly capitalized surplus value into constant capital—machines—and less into variable capital—purchases of additional labor power. The bosses say to the workers: If you insist on any further wage increases, we will replace you with machines. The workers then find themselves in increasing competition with machinery. Unlike living workers, machines don't form unions, insist on higher pay and better working conditions or otherwise resist capitalist exploitation.

These defensive measures by the capitalists then slow down the march toward an absolute overproduction of capital, though it comes at the price for the capitalists of an increasing organic composition of capital, which further lowers the rate of profit already undermined by a falling rate of surplus value.

Suppose, however, that the accumulation of capital is so rapid that though the variable component of capital shrinks relative to the constant component, variable capital still grows so rapidly in absolute terms that the supply of labor power is exhausted. Or what comes to exactly the same thing, the former reserve industrial army of labor is now fully employed and has thus disappeared. This would mean that even people who had not worked for decades, if at all, now find themselves gainfully employed. All attempts by capital to stave off the dreaded—for the capitalists—absolute overproduction of capital have failed. Would this mean that "full employment" capitalism has finally been established?

Not at all—or at least not for very long—according to Marx. Again, an absolute overproduction of capital is a situation where the further production of ever greater amounts of surplus value has become impossible.

Let's recall the basic formula for capitalist production M—C..P..C'—M'. As the absolute overproduction of capital developed, capitalist production would break down at the M—C phase on the left side of the formula. The capitalists would hold on to a portion of the M—hoard some of their money capital. More precisely, if an absolute overproduction of capital existed, the capitalists' money would not be able to function as capital, since there would be no further possibility of exchanging money for the commodity labor power, the only commodity that actually produces surplus value. Even if there were no realization problems, that is the C'—M' that appears on the

right side of the formula were proceeding smoothly, the prospects for further profit making would vanish. (4)

No surplus value no profit

Surplus value that is not produced cannot be realized. If there is no C′, there can be no M′ and thus no profit. And no profit no capitalist production. As the capitalists increasingly hold onto their M, investment and the demand for the commodities that constitute the means of production will plummet. And so will any further demand for the commodity labor power, since the *use value* of labor power for the capitalists is precisely that it produces surplus value.

If labor power does not produce surplus value, it loses its use value for the capitalists and can no longer be sold by its owners—the workers—to its buyers—the capitalists. Furthermore, the resulting collapse of demand for labor power will indirectly reduce the demand for means of subsistence by the now-growing number of unemployed workers.

The *very shortage* of labor power will under capitalist conditions of production cause an economic crisis leading to the reappearance of mass unemployment. Therefore, even if capitalism developed with such vigor that the industrial reserve army entirely disappeared into active employment, this would cause an economic crisis that would *reconstruct the industrial reserve army*.

Here we get to the essence of what distinguishes capitalism from other modes of exploiting labor. Slavery, where the worker is the private property of the boss and therefore has no freedom at all, and serfdom, where the worker is bound to land and cannot quit and seek alternative employment, are backed up by brute force. If a slave tries to escape, the "boss" uses force, whether his own private force or the state power, to reclaim the ownership of his private property. Under serfdom, the feudal lords could similarly forcibly pursue the serfs who fled from their lord's domain without permission.

This is not the case under capitalism once capitalist relations of production have been consolidated. What replaces the brute force of slavery and serfdom is the threat of unemployment—that is, the very existence of the reserve industrial army, which holds the employed workers in check. The prospect of starvation, or at least poverty, that unemployment brings takes the place of the whip and lash of old. Without the reserve industrial army, the whole capitalist system of exploitation of "free wage labor" therefore could not, according to Marx's analysis, exist

Another function of the reserve industrial army

Marx pointed out that the reserve industrial army plays another vital role for the capitalists. Periodically, he explained, the demand for either a particular commodity or the market for commodities in general—the world market—undergoes a sudden expansion causing the demand for labor power to periodically soar. In my main posts, I examined why such sudden expansions of the market are an inevitable part of the capitalist mode of production. However, if there was not a preexisting reserve army of potential workers when such sudden expansions of the market occur, from where would the workers come to produce the commodities to meet the suddenly increased demand?

In the absence of a substantial reserve army of labor, as soon as the "boom" began it would collapse because of an absolute overproduction of capital. Indeed, capitalist labor market experts still scratch their heads when they examine the evolution of the labor market during the middle of the last century. By the end of the Depression decade of 1930s, the capitalists had written off millions of people—almost an entire generation of youth—as "unemployable." But when the war economy, and then immediately after the war the world market, entered one of its periodic sudden expansions, millions of people who the bosses had written off as "unemployable" were productively—from the viewpoint of producing surplus value, and in other ways as well—employed. If there had been "full employment" during the 1930s, where would all the extra workers have been found who were necessary for the war economy and then the postwar "boom" economy that followed?

The reserve army and the industrial cycle

Marx explained that the the proportion of the population that makes up the industrial reserve army relative to the employed workers is not fixed but fluctuates with the phases of the industrial cycle. During the depression phase that follows the crisis, the demand for labor power hits its lowest point of the cycle. This causes the industrial reserve army to swell to its maximum size.

The reserve army begins to shrink again during the phase of average prosperity that follows the stagnation-depression phase and reaches it lowest point during the phase of boom and

overproduction that precedes the next crisis. However, the inability to realize the surplus value embodied in the commodity capital (C′—M′, on the right side of the general formula for capitalist production) ends in a new crisis of general relative—not absolute—overproduction of commodities and capital well before the industrial reserve army completely disappears. Or what comes to the same thing, a crisis of a general relative overproduction of commodities and the productive capital used to produce the commodities occurs *before an absolute overproduction of capital can develop*.

An important function of crisis

Therefore, one of the most important functions of the crises that crown the industrial cycle is to periodically renew the ranks of the reserve industrial army. If the problem of realizing the value and surplus value of commodities could actually be overcome by the methods advocated by Keynes and his followers—or any other way—the drive of the industrial capitalists to increase production without limit would actually lead to an absolute overproduction of capital.

But this, as we have seen, would be a far more serious crisis for the capitalists than the crises of relative overproduction of commodities and productive capital that occur in the real world. Therefore, according to Marx, "full employment," at least for any period of time under capitalism, is a utopia, though the movements of the industrial cycle and the depth, frequency, severity and durations of its downturns in different historical periods cause considerable fluctuations in the actual size of the reserve industrial army. And these fluctuations can have very important political consequences.

What progressives don't like about Marx

This aspect of Marx's economic theory is very unappealing to non-Marxist progressives who dream of "full employment" as a demand that can be realized under the capitalist system. They greatly prefer Keynes, who tells them that "full employment" can be realized under capitalism—even if "full employment" can only be realized through enlightened government policies designed to achieve it.

Keynes's marginalist roots

Anybody who actually reads Keynes's "General Theory of Employment, Interest and Money," which is now available free of charge online, will find that his theory of employment and unemployment is simply a modification of the theory of employment developed by Keynes's teachers, the pioneering marginalist economists of the late 19th century. Therefore, in order to understand Keynes's theory of employment, we first have to examine the marginalist theory of employment.

The marginalist theory of employment

In complete opposition to Marx, the marginalist economists—sometimes called "neoclassical economists"—claimed that a capitalist economy will always move toward an equilibrium at "full employment" as long as there are no "monopolies"—like trade unions—and no minimum-wage laws. According to marginalist economic theory, capital produces "interest," labor produces the "wage" and land produces "ground rent." In addition, entrepreneurial risk-taking and initiative produce the "wages" of the entrepreneurs and an "economic profit" beyond the interest produced by capital itself.

Suppose, the marginalists explain, a situation existed where labor (5) is producing more value than it receives in wages. Even a marginalist would concede that this would mean "labor"—the worker—is being exploited by the capitalist. Under such conditions, the marginalists explain, the capitalists would make an extra profit above and beyond the interest on capital and any wages and "economic profits" that the capitalists would produce through their own labor as entrepreneurs. The capitalists, hungry for even more profits, will hire additional labor. But the very rise in demand for labor will increase wages. Wages will keep rising, according to the marginalists, until an "equilibrium" situation arises where the wages received by the workers exactly equals the value that the workers are producing.

Therefore, the marginalist hold, the very workings of the labor market, assuming that complete "free competition" prevails, *prevents* the exploitation of labor by the capitalists, at least for any period of time. This conclusion by the margnalists is the *exact opposite* of Marx's theory of surplus value.

Could the workers, according to the marginalists, actually exploit the capitalists? Yes, the marginalists answer, but again assuming free competition such a situation could not persist. A situation where labor was exploiting capital is defined, according to marginalist theory, as one

where the value created by the workers' labor is less than the value that the workers receive in wages.

But such a situation would not be stable either, assuming free competition. The capitalists would not for very long employ workers if the capitalists are being exploited by the workers because they would be making losses by doing so. The demand for such "capital-exploiting labor" would soon vanish.

Therefore, the only equilibrium that is possible in a free-market economy is a situation where the owners of "capital" and the "entrepreneurs" get exactly the interest and profits that they and their capital produce—not a penny more and not a penny less. The workers also get exactly the value they produce through their labor, not a penny more or a penny less. The same will be true of rent-producing land for the landowners.

Under equilibrium, none of the three factors of production—capital, labor and land—will be able to exploit any other factor of production. If you take a college-level economics course, this is what you learn, as the young Keynes learned from his teachers.

Workers free to choose between labor and leisure, according to the marginalists

In a free society—that is, a capitalist society—the workers have two choices, the marginalists explain. They can either sell their labor or they can choose leisure over labor. As Milton Friedman put it, they are "free to choose." If they choose leisure, they avoid the "disutility" of labor but forgo the utility of the extra goods they could have purchased with their wages if they had chosen to work. (6)

Freedom of choice and voluntary unemployment

If workers want work but can't get it at the prevailing wages—assuming there are no unions that enforce wage scales or minimum-wage laws that undermine the workers' freedom to work for any wage—they simply lower the wages they ask for until a capitalist offers them work. It might be, the marginalists concede, that a worker will choose not to accept employment at wages that represent the actual value that the workers' labor will produce. But in that case, the marginalists explain, the workers are freely choosing leisure over labor. In such a situation, workers are "voluntarily unemployed." And in a free society, unlike a slave society, the workers are free to be voluntarily unemployed if they choose to be!

Since this a free choice on the part of the workers, this not really problem. If it becomes a problem for the unemployed workers, the marginalist economists explain—for example, if they face severe poverty and even starvation—they will no doubt freely offer their "labor" at a wage that actually represents the value they will produce for the capitalists and they will then quickly find employment. Therefore, the marginalists economists explain, as long as there is free competition—no unions and no minimum-wage laws—the only real "involuntary unemployment" will be what they call "frictional unemployment"—people between jobs—which is not really a problem since it is of short duration.

The marginalists as champions of the poor and unemployed

But suppose there are trade unions that enforce a wage schedule. The marginalists argue that while the more skilled workers will get employment because their labor produces a great deal of value, the less-skilled and less-experienced workers will be denied work because the union-enforced wages will be greater than the value the unskilled workers can produce with their less-productive labor.

The marginalists, now claiming to be the champions of the poor and the oppressed unskilled workers, "explain" that the poor never get a chance to improve the productivity of their labor because they never get a chance to work. It is only through work that the poor and unskilled acquire the skills that will make their labor more productive.

Instead, because of the selfish unions of skilled workers and the "well-meaning" but sadly mistaken minimum-wage laws passed under the pressure of people who do not understand (marginalist) economics, the poor get locked into chronic unemployment and poverty. The cause of poverty, according to these well-paid "economic scientists" of the ruling class, is the basic organizations of the workers and minimum-wage laws—and not the capitalists who, wonder of wonders, don't like unions and hate minimum-wage laws!

Other causes of poverty, according to the marginalists

Also very harmful to the poor, the marginalists explain, are welfare and unemployment insurance. These encourage the poor or unskilled workers to depend on "government handouts" rather than

seek work at initially low wages that will enable them to gain skills that later on will enable them to earn the higher wages of skilled workers. Therefore, in order to help the poor, the marginalist economists urge the abolishment or at least the drastic reduction of welfare, unemployment and social security benefits and other "well-meaning" but sadly "mistaken" social legislation.

In this way, highly paid professional economists explain, the poor will gain the skills that will enable them to earn high wages and achieve independence.

The marginalists and cyclical unemployment

But, we might ask a marginalist economist, what about the unemployment caused by cyclical crises? Marginalist theory, which builds into its foundations Say's Law, the quantity theory of money, and the neutrality of money—as well as the theory of comparative advantage, which explains that free trade is equally in the interest of rich and poor nations, denies that crises of generalized overproduction are even possible in a capitalist economy, let alone inevitable.

But if an economic crisis occurs anyway, due perhaps, marginalist economists will explain, to some "external shock" like crop failures or some other economic accident arising outside of the economic system such as mistaken policies of the government or the monetary authority, it will be short-lived. Full employment will be quickly restored as long as the government stays out of the way and does not interfere with the free market. Private charity, the marginalists explain, should be more than enough to take care of any short-term involuntary unemployment caused by such "accidental" and short-lived economic crises.

Marginalism and Marxism, two completely different economic theories

We have here two completely different theories of employment and unemployment. Marx's theory of employment and unemployment is rooted in his basic theory of the nature of commodities and money as a social relationship of production, labor value, and labor power as a commodity, and his theory of surplus value. The marginalists' theories are rooted in *their* theory of value. According to the marginalist theory, value arises not from the labor that is socially necessary to produce a commodity, as both the classical political economists and Marx held, but rather from the scarcity of goods that have a subjective utility for their owners.

Since the basic factors of production that produce the scarce goods—capital, labor and land—are themselves scarce, the market will equilibrate where each factor of production receives income that exactly equals the value it produces. In this situation, each factor of production including "labor" will be "fully employed." Therefore, the marginalists—before Keynes and today after Keynes as well—draw the conclusion that the only economic equilibrium that is possible in a "free market" capitalist economy is "full employment."

Progressives hate marginalist economics

Non-Marxist progressives consider both the marginalist and Marxist theories unacceptable. They refuse to accept Marx's arguments that it will take a full-scale political and social revolution to end unemployment by abolishing capitalism. But they are repelled by the marginalist economists whose "solution" to unemployment amounts to union busting, repealing minimum-wage laws and abolishing unemployment insurance, social security, welfare and all other progressive social legislation. Surely, progressives believe, there must be a third way between the extremes of "Marxist revolution" and "marginalist reaction." For non-Marxist progressives, the theories of Keynes represent the "third way."

Keynes 'corrects' marginalist theory

Keynes's starting point was not that of Marx, notwithstanding his expressed interest in 1933 in Marx's C—M—C (which he garbled into C—M—C') and M—C—M'. This is not surprising since Keynes had first learned economics from the pioneering English marginalist economists of the late 19th century such as Alfred Marshall, his main teacher in economics.

As a young economist in the early years of the 20th century, the talented Keynes became in his own right a leading advocate and developer of marginalist economic theory. But when he was faced with Britain's—Keynes was always English-centric—prolonged unemployment crisis that set in with the post-World I recession of 1920-21, and that was reinforced by the U.S.-centered super-crisis of 1929-33, and lasted right down to the mobilization for World War II, Keynes realized that there was something wrong with the marginalist theory of employment.

However, unlike many of the younger economics students of the 1930s, including the young Paul Sweezy, Keynes found the Marxist alternative unacceptable, since to accept it he would have had to break with his class.

In order to explain the unemployment crisis, Keynes merely modified the marginalist theory. He now held that the marginalists had unwittingly only analyzed the "special case" of "full employment" while failing to realize that they were only analyzing a "special case." It is as though Albert Einstein had developed the theory of special relatively without realizing that he had left out acceleration. Therefore, the marginalist theory wasn't wrong, according to Keynes, it was merely incomplete. A full marginalist theory of employment and unemployment would have to explain not only the "special case" of an equilibrium at full employment but also equilibriums at less than full employment as well.

Keynes's amended marginalism

Let's examine how Keynes amended the marginalist theory of employment. During the Depression years, arch-reactionary marginalist economists such as the Austrian (7) economists Ludwig von Mises and Fredrick von Hayeck and the English economist Lionel Robbins, for example, were claiming that the mass unemployment was caused by wages that were too high relative to the value that the unemployed workers' labor was capable of creating if they were actually employed. This was, of course, the standard marginalist analysis.

Therefore, the only way back to "full employment," these traditionalist marginalist economists argued, was for the bosses to show more backbone in standing up to the unions and push through the wage cuts that were needed to return to equilibrium and full employment.

Much to the embarrassment of many trade union and progressive supporters of Keynes, Keynes agreed with von Hayeck, von Mises, Robbins and others that the root cause of the Depression-era unemployment crisis was that wages were higher than the value that the unemployed workers could create if they were employed at the prevailing wage. But Keynes pointed out that money wages and real wages—wages in terms of commodities—are by no means the same thing.

Keynes versus Ricardo and Marx on wages and prices

In his "General Theory," Keynes claimed that the general price level was largely governed by the level of money wages. This was the view that was also held by Adam Smith and Malthus but was later refuted by David Ricardo on the basis of his law of labor value.

Ricardo explained that higher wages would mean a fall in the rate of profit, not a rise in the general price level. Marx strongly defended Ricardo's arguments in a talk he delivered to a meeting of the International Workingmen's Association (First International), which was later reprinted as "Wages, Price, and Profits" or "Value, Price, and Profit."

Keynesian economists as 'friends' of the trade unions

Today, "neoliberal" marginalists—marginalists who defend the traditional marginalist arguments and reject Keynes's amendments, such as the late Milton Friedman—also tend to reject the claim that higher money wages are inflationary, even though they are certainly not friends of the trade unions. Keynesian economists, on the other hand, tend to strongly support Keynes's view that higher money wages will lead to inflation. They therefore urge that the trade unions practice "wage moderation" in order to avoid inflation.

During the "stagflationary" 1970s, the Keynesian economists explain, the unions abused their power and mistakenly pressed for higher money wages and thus caused the inflation that opened the door to "neoliberalism." Despite this, Keynesian economists are seen as allies of the trade unions by many trade union leaders and other progressives and even serve as advisors to the trade unions.

Keynes's views on wage policy were shaped in no small measure by the evolution of the class struggle in Britain during the 1920s. In 1926, a move by the coal bosses to cut wages measured in terms of British currency after Britain had returned to the gold standard at the pre-war rate led to the General Strike.

The return to gold at the pre-war rate had meant a revaluation of the British currency not only against gold but also in terms of the currencies of Britain's competitors on the world market such as the U.S. dollar. Assuming that the wages of the British workers in terms of pounds remained unchanged, this amounted to a wage increase in terms of gold—world money—as well in terms of dollars and other currencies whose values remained unchanged in terms of gold.

The General Strike of 1926

The miners' resistance to the wage cuts in terms of pounds that bosses saw as the only way to counteract the rise in the value of the pound against gold and other currencies spread to the rest of the working class, leading to the great General Strike of 1926. For a brief moment, the General

Strike raised the specter of a workers' revolution in Britain such as the one that had occurred in Russia in October 1917.

Keynes like bourgeois English people in general never wanted to see anything like that again! He drew the conclusion that the way to cut real wages was through currency devaluations and inflationary expansions of the money supply, and not through the cutting of money wages that would lead to workers' resistance.

In the "General Theory," published just a decade after the General Strike, Keynes claimed that during a period of crisis marked by falling prices, money wage cuts cause prices to fall further. The result, Keynes complained, is that *real wages* do not fall and may even tend to increase during crises leading to still more unemployment.

Indeed, before World War II the cost of living generally fell during periods of recession, which often did lead to a rise in real hourly wages. The income of the working class as a whole still fell during recessions, however, because of the reduced hours of work. In order to restore "full employment," Keynes explained, it is necessary to lower the amount of actual commodities that the workers receive for performing a given amount of work.

The only way to achieve this, according to Keynes, was not through cuts in money wages carried out by individual capitalists. This, he claimed, would only lead to offsetting declines in the cost of living and could spark dangerous resistance on the part of the workers. The way to achieve the "needed" cuts in real wages was for the government and its "monetary authority" to follow monetary polices such as currency devaluations and inflationary increases in the money supply designed to encourage rises in the cost of living independent of movements in money wages.

Today, the progressive-Keynesian economist Paul Krugman is calling for a massive devaluation of the "overvalued" U.S. dollar relative to the "undervalued" Chinese yuan.

In general, Keynesian economists play down the danger of inflation. Far from being an evil, the Keynesians explain, a "little inflation" is just what is needed to lower real wages and restore "full employment."

And while Krugman is only advocating inflationary measures, his former colleague at Princeton University's economics department, the Republican head of the Federal Reserve System Ben Bernanke is acting. Bernanke has announced that the Federal Reserve is buying $600 billion worth of U.S. government bonds in order to carry out quantitative easing—also known as "running the printing press."

The Fed is making no secret that it considers the current rate of increase in the cost of living to be dangerously low. Since cost-of-living clauses have virtually disappeared from union contracts in the U.S., the "modest" rise in the rate of inflation that the Fed is hoping to engineer through its policies of "quantitative easing" and dollar devaluation will mean lower real wages for both union and nonunion—the great majority of—U.S. workers.

In addition, the bipartisan so-called U.S. Deficit Commission is strongly advocating that the cost-of-living increases built into Social Security payments be reduced—this just as the Federal Reserve is moving to increase the rate of inflation. By reducing Social Security payments in real—commodity—terms more older people will be forced to return to the labor market putting further downward pressure on the wages—both money and real wages—of workers. This is on top of a proposed increase in the retirement age!

What genuine progressives, or even trade union officials who support Keynesian economics, choose to ignore is that policies often advocated by Keynesian economists such as "devaluing the overvalued currency" and increasing the money supply are *designed* to lower the *real* hourly wages of the workers and *increase profits*. This is how the Keynesian economists hope to restore "full employment"—by which they generally mean in the U.S. the levels of unemployment of the late Clinton administration.

The Keynesian theory of 'effective demand'

But there is another side of Keynes's theory, his theory of *monetarily effective* demand that is far more palatable to trade unionists, progressives and "Keynesian Marxists" such as John Bellamy Foster.

While Keynes believed that the real hourly wages of employed workers during a period of high unemployment had to be lowered in order to return to "full employment," he also believed that overall monetarily effective demand would have to be increased if world capitalism was ever to emerge from the mass unemployment that prevailed during the 1930s when he wrote his "General

Theory." If full employment were restored, overall monetary demand would be higher than it was in the Depression, even if the *hourly real wages* of the employed workers were less.

Since with full employment the workers employed even during the Depression would in many case be working longer hours—much more overtime, for example—their total real income might still rise. And of course the incomes of the unemployed could only rise once they became employed even if the average real wage level measured in terms of real wages earned per hour of labor fell.

What caused the mass unemployment of the Depression era, according to Keynes?

But Keynes if he were to provide a bourgeois alternative to Marx's explanation of unemployment still had to answer the question: Why was there so much unemployment not only of workers but also machines during the Depression decade—and in Britain during the decades of the 1920s, as well? Hadn't the marginalist theory "proven mathematically" that the only possible equilibrium condition of a capitalist economy was one of "full employment" of both machines and workers? How could the British capitalist economy remain so far from its only possible equilibrium of "full employment" for 16 years and counting—which was the case when Keynes published his "General Theory" in 1936?

Unlike the typical economics professor who taught the traditional marginalist theories in the universities in those years, Keynes was far too intelligent to claim that the mass "involuntary unemployment" of the Depression was caused by the "over-strong trade unions" and minimum-wages laws! However, Keynes was not about to go over to Marx's analysis of the necessity of a reserve industrial army of labor in a capitalist system either. If he had, he would have had to admit that unemployment was a necessary feature of capitalist society and would last as long as capitalism itself existed.

We shouldn't forget that the Depression years were also the first years of five-year plans of the the Soviet Union, which showed in practice that a planned economy made possible by a workers' revolution could indeed eliminate mass unemployment. As a defender of capitalism, Keynes was determined to prove that unemployment could also be eliminated *within the framework* of the capitalist system. This is what he tried to prove in his "General Theory."

Keynes still a marginalist

The Keynes of the *General Theory* to the extent that he had any value theory at all supported what he called our "modern" theory of value—the marginalist theory of value. According to the marginalists, objects of utility—it doesn't matter whether they are produced by human labor or by nature—acquire value because of their scarcity relative to subjectively determined human needs. The means of production or capital—to bourgeois economists including Keynes, unlike Marx, the means of production are always "capital" regardless of the prevailing social relations of production—are also scarce because the "goods" they produce are too scarce to fully satisfy all subjectively determined human needs even when they are fully employed.

Suppose the economy has been in a depression, Keynes reasoned, but has begun to recover. As more and more of the available capital is utilized, the "goods" produced by capital become less scarce and therefore the value of the "goods" and the capital that produces the "goods" will decline. Unlike other economists, Keynes made a distinction between the rate of profit "earned" by the owners of productive capital and the rate of interest "earned" by the money capitalists—rentiers in Keynes terminology.

According to Keynes, real capital—factories, machines, and so on as opposed to money—has a "marginal efficiency" for its owner. The marginal efficiency of capital is defined by Keynes as what the entrepreneurs expect to earn when they put an additional unit of their capital into motion. Since it takes time to create new means of production or capital, the amount of potential capital—utilized means of production plus idle means of production—is, Keynes assumed, fixed in the "short run."

Capital has a marginal efficiency and therefore a value to the capitalists, according to Keynes, only because it is scarce. The more capital was set in motion, assuming at least in the short run that the population is also fixed, the less scarce the "goods" produced by the capital would be relative to subjectively determined human needs and the lower will be their value. Therefore, with the population given, the more capital that is set in motion, the lower would be the marginal efficiency—or value—of capital. Or for those readers who are not professional economists, the lower will be the additional profit that the industrial capitalists could reasonably expect to earn by re-activating previously idle means of production.

Keynes's theory of interest versus Marx's theory

Keynes defined interest as the reward to the money capitalists *for not hoarding money*. This explanation cleverly dodges the question of how "interest" is produced in the first place. Here Keynes, as I explained elsewhere, drew a conclusion that was similar to the conclusion that Marx drew. Marx noted and Keynes agreed that everything else remaining equal a contraction in the quantity of money within a country will cause interest rates to rise, while a rise in the quantity of money will causes interest rates to fall. Marx would stress that this applies only to real money—gold—but Keynes did not make any such distinction. To Keynes, money was money whether it was newly produced by human labor in the gold mines or was created by the "monetary authority."

An even more fundamental difference between Marx's and Keynes's theories of interest is that Marx saw interest as a portion of the surplus value that the workers produce by performing unpaid labor for the capitalists. More specifically, Marx defined interest as a portion of the total profit—surplus value minus rent.

Therefore—and this point is crucial to what will follow—in Marx the rate of interest has an *upward limit*, namely the rate of profit. Keynes, in contrast, saw no such upward limit to the rate of interest. According to Marx, interest is not produced by a shortage of money, the quantity of (real) money merely determines the division of already-produced surplus value between the money capitalists on one side and the industrial and commercial capitalists on the other.

Keynes was in *partial* agreement* with Marx in that he rejected by the 1930s the quantity theory of money that he had learned as an economics student from his marginalist teachers and what goes with the quantity theory of money, Say's Law, the "neutrality" of money, and comparative advantage in international trade.

On these questions, Keynes as I mentioned last month was, like Marx, closer to the pre-liberal mercantilists economists than he was to the liberal economists like Ricardo or to the founders of marginalism. John Bellamy Foster points to Keynes's agreement with Marx with regard to Say's Law, the neutrality of money and so on to argue that Marx and Keynes-inspired "macroeconomics" are largely saying the same thing, even when they use different terminology.

But *unlike Marx*, Keynes based his rejection of the quantity theory of money and the "neutrality of money" not on Marx's perfected theory of labor value but on the alleged "stickiness" of money wages and the alleged determination of the general price level by such sticky money wages. Therefore, the common rejection of the quantity theory of money, Say's Law and so on by Marx and Keynes are built on entirely different foundations. It therefore is not surprising that Marx and Keynes drew completely opposite conclusions about the possibility of achieving lasting "full employment" under capitalism.

If only money wages weren't sticky on the downside, the quantity of money and all that goes with it, such as Say's Law, would apply, according to Keynes. But, Keynes argued, money wages, all other things remaining equal, determine the general price level, and since they are so sticky on the downside, a contraction of the money supply within a country would cause interest rates to rise, and conversely an expansion of the money supply would cause interest rates to fall—as long as money wages didn't increase as well.

Keynes agreed with the traditionalist marginalists—but not Marx—that even given sticky money wages that invalidate the quantity theory of money, the capitalist economy will move to an equilibrium point where the rate of profit on productive capital equals the rate of interest. But in contrast with marginalist economic theory up until that point, it was, according to Keynes, a matter of pure chance whether this equilibrium would occur at "full employment" or at a point well below "full employment."

Suppose, following Keynes's—not Marx's—theory, real capital was very scarce relative to the population. According to Keynes, this would mean that the marginal efficiency of capital—or rate of profit—would be high and full employment would be achieved at a high rate of interest. But what if capital though still scarce relative to subjectively determined human needs over time becomes less scarce relative to human needs as society becomes richer? Or what to Keynes came to the same thing, what would happened if productive capital—the means of producing "goods"—was growing faster than the population?

If the world was to avoid an ultimate Malthusian disaster of "overpopulation," population growth would have to slow down sooner or later. Keynes believed the marginal efficiency of capital, or rate of profit, would then fall as productive capital became less scarce relative to population. It is important to realize that Keynes's theory of the tendency of the rate of profit to fall was radically

different than Marx's theory. Keynes like all economists trained in marginalism was very far from realizing that only variable capital produces surplus value, and he had no concept of a tendency of the rate of profit to fall due to a rising organic composition of capital.

Keynes—like many of early marginalists—simply believed that the rate of profit would decline as capital became less scarce. Like the pioneering marginalists, he saw this "falling rate of profit" as an answer to socialist criticism of capitalism. The high profit and interest rates relative to the miserable wages paid to the workers was only a feature of early capitalism, Keynes and the early marginalists held, that would give way to a far more equalitarian division between profits and interest rates on one side and wages on the other as capitalism matured. (8)

This expected fall in the rate of profit—or declining marginal efficiency of capital—was exactly what Keynes thought was happening in the decades of the 1920s and 1930s. The problem as Keynes saw it was that the rate of profit on productive capital was *falling faster then the rate of interest was falling.* Because the fall in the rate of profit on productive capital was outpacing the fall in the rate of interest on money capital, Keynes reasoned, the capitalist economy was now reaching "equilibriums"—where the rate of profit on productive capital equaled the rate of interest on money capital—at higher and higher levels of unemployment of both workers and machines.

Keynes on the industrial-trade cycle

According to Keynes, the difference between the profits expected by the entrepreneurs during an upswing in the trade cycle, as the English call the industrial cycle, and their actual profits produces the cyclical pattern of boom and crisis and all the transitional states in between. However, Keynes assumed not unreasonably, as did Marx for that matter, that the profit expectations of capitalists, though they will usually be either above or below what the capitalists will actually realize, will over time fluctuate around the actual profits that successful capitalists come to expect. Those capitalists that prove over time to be unable to gauge more or less correctly the movements of profit rates will be eliminated through competition.

Both Marx and Keynes alike agree on this. Therefore, according to Keynes, the capitalists having unreasonably high profit expectations during a boom will accumulate so much productive capital that (productive) capital becomes much less "scarce" causing the rate of profit to fall well below the prevailing rate of interest. When the industrial capitalists realize that they are making less on their new investments than they would if they merely invested their newly realized profits in government bonds, they will dramatically reduce their productive investment and shift to bonds instead. As is said by Keynesian economists, they will then attempt to save more than they are (productively) investing. This causes the trade cycle downturn.

The downswing in the trade cycle brings with it slumping industrial production and unemployment-breeding layoffs. During the depression or stagnation phase of the trade cycle that follows the crisis, capitalist expectations about profits will now lag behind the actual profits that the capitalist could be making as the excessive "pessimism" of the depression replaces the unwarranted optimism—about profits, that is—of the "boom." Falling investment, however, increases the profits earned by productive capital as productive capital agains grows scarcer while interest rates fall during the depression as the demand for borrowed money contracts.

Eventually, the marginal efficiency of capital again will exceed the rate of interest and the trade cycle will turn upwards. Over time, Keynes believed, the trade cycle fluctuates around a long-term equilibrium rate of profit on productive capital that equals the rate of interest—which might or might not represent full employment.

If the economy was fluctuating around an equilibrium of "full employment," Keynes reasoned, the unemployment caused by recessions would be short-lived and full employment would be quickly restored as the traditional marginalist economists had claimed. But if the equilibrium level of employment that the trade cycle fluctuated around was well below "full employment," this would not be the case. Instead, there will be considerable involuntary unemployment that will persist across the trade cycle, though unemployment would still be highest during the trade cycle downturn and least during the trade cycle "boom."

This is exactly what Keynes thought was happening when he wrote the "General Theory." If nothing was done and the problem of mass unemployment persisted or worsened as capitalism achieved equilibriums that were more and more below "full employment," Keynes feared that his beloved capitalist system would be increasingly discredited. The British capitalist class might not be so lucky the next time they faced a situation like the General Strike of 1926. Therefore, Keynes believed

that something had to be done to prevent this ultimate disaster for his ruling capitalist class. Keynes was certainly not looking forward to a socialist future.

Keynes's proposed solution to the unemployment crisis of the 1930s

Keynes, however, did not believe the situation was hopeless for his class. According to him, it was well within the power of the capitalist government and the "monetary authority" to end the unemployment crisis and return to "full employment." How could this be done? The simplest way would be to have the "monetary authority"—the Bank of England—print more money until the rate of interest fell to the point where it again equaled the marginal efficiency of capital at full employment. For this reason, Keynes wanted the Bank (of England) to have complete freedom to print whatever amount of money it took to lower interest rates right down to the point where interest rates would equal the "marginal efficiency of capital" at "full employment."

Therefore, Keynes hated the gold standard in any form and strongly advocated what was called in the 1930s a "managed currency" and today is called a "fiat monetary system." Under such a system, the "monetary authority" does not have to redeem the currency it issues in gold or any other precious metal.(9) If any form of gold standard were retained, Keynes feared, a run on the Bank of England gold reserves could force it to keep interest rates above the very low levels that Keynes believed were by the 1930s necessary to achieve an "equilibrium at full employment."

The utopia of 'non-commodity money' central to Keynes's solution to mass unemployment

Keynes, who had no notion of any version of the law of labor value, did not of course understand Marx's perfected law of labor value. In his perfected law of labor value, Marx explained that the law of value requires a value form, or exchange value. The value form, or exchange value, means that the value of a commodity must be measured in terms of the use value of another commodity. This means that money, which is the universal equivalent that in its use value measures the value of all other commodities, must itself be a commodity. The non-commodity money that was so essential in Keynes's view to achieving "full employment" under capitalism is a complete utopia.

Therefore, like Keynes, non-Marxist progressives strongly oppose any proposals to return to the gold standard in any form. In general, progressives agree with those bourgeois economic historians who, strongly influenced by Keynes, blame the 1930s Great Depression largely on the gold standard. (10) While accepting Keynes's rejection of the gold standard, progressives play down those parts of Keynes's theories that imply that monetary policy alone can ensure "full employment" by lowering the rate of interest to the point that it equals the "marginal efficiency of capital" at full employment.

Many pro-business conservative "neo-Keynesians," claiming that "human needs are infinite," deny there is a tendency for the rate of profit—Keynes's "marginal efficiency of capital"—to fall. These conservative "neo-Keynesians" hold that correct monetary policies by the monetary authorities should be sufficient to maintain "full employment," at least under "most circumstances." In contrast to these conservative "neo-Keynesians," progressive Keynesian—sometimes called "post-Keynesians"—who are not far from the Monthly Review School, demand government policies that directly address unemployment and poverty.

Expansionary fiscal policies

Especially under the current conditions of mass idleness of both workers and machines, the Keynesian progressives hold that these desperately needed programs should be financed by borrowed money. This is what is called by Keynesian economists an *expansionary fiscal policy*. A hallmark of progressive Keynesians as opposed to conservative "neo-Keynesians" is the claim of the former that fiscal and not monetary policy is key to ensuring full employment.

Liquidity trap

Back in the 1930s when Keynes wrote the "General Theory," he believed that if capital was as "scarce" relative to the population as he believed it to be before World War I, the "marginal efficiency of capital" would still be high at "full employment." Under these conditions, which Keynes assumed generally prevailed before World War I, monetary policy alone would be able to ensure that interest rates would low enough to ensure a "full employment" equilibrium. Looking back at the pre-World War I years, Keynes concluded that better results would have been achieved if a "managed currency system" rather than the international gold standard had been in place, since the gold standard required the Bank of England to sometimes raise interest rates to levels that were too high to maintain a "full employment equilibrium" in order to safeguard its gold reserve.

But the gold standard notwithstanding, Keynes believed that the scarcity of capital relative to population had ensured a high enough marginal efficiency of capital to prevent the kind of mass unemployment crisis that was to hit Britain and most of the rest of the capitalist world during the 1920s and 1930s.

But with Britain and world population growth declining after World War I, Keynes believed that by the 1930s the "marginal efficiency of capital" was so low that it was becoming increasingly difficult in practice to drive the interest to the very low levels that were required to ensure anything close to an "equilibrium at full employment." The problem, Keynes believed, was that while it is easy to reduce say a 6 percent rate of interest to a 3 percent rate of interest by simply having the monetary authority expand the money supply, it was far more difficult to reduce an interest rate of 1 percent by simply printing more money. Interest rates—especially long-term interest rates—stubbornly resist falling all the way to zero.

Therefore, if the marginal efficiency of capital was below 1 percent at full employment, even a long-term interest rate of say 1 percent was too high to ensure an equilibrium of full employment. Such a situation is called by Keynesian economists a "liquidity trap." Today, once again progressive Keynesian economists believe that the capitalist world is in a liquidity trap where monetary policy alone is incapable of ending the current unemployment crisis.

Euthanasia of the rentier

In principle, Keynes did believe that the rate of interest could fall all the way to zero, and indeed predicted that would happen eventually as productive capital ceased to be scarce. He called this the "euthanasia of the rentier." In a world without "scarce" capital, Keynes explained, there would be no need to keep money scarce and interest on money would vanish. Nobody would then be able to live off interest alone without working. In the "General Theory," Keynes looked forward to this day, explaining that this would strip capitalism of one of its most repulsive features—the ability of the rich to live off the interest on their capital without performing any work at all, not even the work of managing and running a business.

In a future world of capitalist abundance that Keynes believed was now near at hand, this would become impossible. But Keynes believed the powerful money capitalists that lived off "clipping coupons" were naturally resisting the further declines in interest rates that would move the economy back to "full employment." When Keynes wrote the "General Theory," the Bank of England—Britain's monetary authority—was still a privately owned institution. (11) It wasn't to be nationalized until 1946, the year of Keynes's death. Keynes claimed that the bank's stockholders, who after all represented the very cream of Britain's money capitalists, were preventing the bank from printing enough money to drive interest rates down to a level sufficient to restore full employment.

Under these kinds of conditions—and Keynesian progressives assume as I mentioned that a similar "liquidity trap" exists today—the only way out is for the government to intervene more directly in the economy through deficit spending, or an expansionary fiscal policy.

Deficit spending, Keynesians believe, works in two ways. When the government borrows money—as opposed to raising it through taxation—an extra demand is created as the government or its dependents spend the borrowed money. This in turn stimulates other businesses that sell either to the government directly or to its dependents in a "multiplier effect." As business picks up, these businesses spend more and hire more workers who spend their newly earned wages, stimulating other businesses in turn.

Goods and the means of producing additional goods—capital—therefore become scarcer relative to the now expanded level of "monetarily effective demand" increasing the rate of profit on productive capital both absolutely and relative to the long-term rate of interest. The economy therefore moves towards an equilibrium at a point closer to full employment.

Keynesian supporters of expansionary "fiscal polices" hold that as long as significant unemployment exists, the government should not fear increased deficit spending. The "problem" of deficits should not be addressed until "full employment" is actually achieved.

Today, Keynesian progressives are saying that Obama's "stimulus plan" of deficit spending was far too small in light of the level of unemployed workers and machines created by the "Great Recession," and that federal deficit spending in the United States and other capitalist countries should be further increased, not cut, until "full employment" returns.

Only then, these Keynesian progressives hold, should measures be taken to reduce or eliminate the deficits. It would be a grave error, they hold, to attempt to reduce federal deficits when tens of

millions of workers are unemployed, which much to the chagrin of the progressives is exactly the stated policy of the Obama administration.

Another way that deficit spending works, according to Keynesian theory—less emphasized by the Keynesian progressives—is that a high level of unproductive government spending slows down the accumulation of capital and therefore keeps capital “scarcer” than it would otherwise be. This will mean capital will retain a higher marginal efficiency—higher rate of profit— and therefore interest rates will not have to fall quite so much to ensure “full employment.”

Military Keynesianism

What progressives fear is that governments under the influence of reactionary business interests will resort to “military Keynesianism” in order to solve the unemployment crisis. Instead of spending the borrowed money on public works and directly employing the unemployed in useful ways, the government will instead spend the money on arms buildups, employing young people as solders, and finally actually engage in shooting wars on a much larger scale than it is already doing.

If these wars escalate to the point where they destroy large amounts of capital, capital will become scarcer and according to Keynesian theory its “marginal efficiency or rate of profit will rise making it possible to achieve “full employment” at higher rates of interest once again.

In progressive circles, fears of military Keynesianism and its logical extension of large-scale warfare have been increasing in light of the wars and conservative domestic policies that have so far been followed by the Obama administration. It is widely believed by progressives—and many reactionaries as well—that only the large-scale deficit spending and the massive destruction of capital that accompanied World War II really ended the Depression of the 1930s.

Many progressives believe that World War II as fought by the democratic governments of the United States and Britain was a progressive war against fascism—the last truly “good war.” A happy side effect of the defeat of fascist tyranny was that it finally ended the Depression. But what kind of “economic recovery,” progressives ask—even if they can imagine the U.S. government fighting another “good war”—would accompany and follow a new world war fought with nuclear and other modern “weapons of mass destruction”?

Monthly Review School’s criticisms of Keynes

The Monthly Review School, founded by Paul Sweezy and now led by John Bellamy Foster, is often accused by more “orthodox” Marxists of replacing the Marxist analysis of capitalism with a Keynesian analysis. (12) However, while obviously greatly admiring Keynes’s analysis of capitalism, the Monthly Review School has advanced its own criticisms of Keynes.

Paul Sweezy, both in “Monopoly Capital,” co-authored by Paul Baran, and in articles published over many years, pointed out that Keynes completely ignored the question of monopoly in the “General Theory.”

Sweezy claimed that just like the traditional marginalists and the classical economists before him, and even Marx, Keynes assumed “free competition.” Since Keynes wrote the “General Theory” well into the monopoly-capitalist imperialist era—it was published exactly 20 years after Lenin’s “Imperialism”—this is indeed a major omission in Keynes’s work, to say the least.

According to Sweezy, Baran and their like-minded supporters, corporate monopolies are the major cause of stagnation in modern capitalism. Monopolies earn super profits by restricting production and thus increase their potential profit—the surplus—through their ability to charge monopoly prices, according to these economists. Since the giant monopoly corporations tend to restrict production, they have a considerable margin of excess capacity and this discourages new investment that will create additional capacity.

The problem they then face is how to realize this potential profit without increasing production, which if they did would cause the monopoly profits to disappear. In addition, the Monthly Review School holds, high monopoly prices made possible by the virtual disappearance of price competition among the giant corporations undermine the purchasing power of the rest of the population, further intensifying stagnationist tendencies through “underconsumption.” Unless these tendencies are offset by either revolutionary technological innovations such as the railroad in the late 19th century or automobiles in the 1920s, or massive government spending, the result will be Depression conditions like those that prevailed in the 1930s.

Sweezy and the other Monthly Review writers note therefore that for all his “insights,” Keynes managed to overlook the main cause of the tendency toward stagnation—monopoly. But the Monthly Review School holds that Keynes managed anyway to draw the correct conclusions when he held

that only large-scale government spending could keep a Depression at bay and ensure "full employment" under monopoly capitalism. The key question becomes whether the government spends money in a way that is in the interests of the great majority of the people, like public works, public housing, and directly employing the unemployed, or whether it is spent on militarism or war.

A hyper-Keynesian argument

In "Monopoly Capital," Baran and Sweezy expressed their disagreement with most Keynesian economists who hold that only deficit government spending increases monetarily effective demand and thus counteracts capitalist stagnation and unemployment. Baran and Sweezy held that even when the government raises money through taxation—not borrowing—demand is increased by the exact amount that the government spends. For example, if the government raises a billion dollars in tax revenue and spends it, the market will increase by a billion dollars. The only difference will be that unlike borrowed money, there will be no multiplier, or what comes to exactly the same thing mathematically, the multiplier will be 1. If the government borrows and spends a billion dollars and the multiplier is 4, the market will expand by $4 billion, but if the government raises a billion dollars through taxation and then spends the money, the market expands by only a billion dollars.

Therefore, it is perfectly possible, Baran and Sweezy held, for a capitalist government to expand monetarily effective demand right up to full employment without a dangerous accumulation of government debt.

Here Baran and Sweezy are being more Keynesian than Keynes. They are saying costly government is a good thing in itself—unless full employment already exists—or the spending is for completely harmful purposes such as military outlays and wars.

Until the Cold War, Paul Sweezy shared a belief that was widespread among left-wing New Dealers that the further intensification of the stagnationist tendencies of capitalism even beyond those of the 1930s would force the government to appropriate and spend more and more of the national income—in Marxist terms V + S. Sweezy hoped that the further growth of the percentage of the national income spent by the government would lead to full employment and massive social reforms that would be part of a gradual evolution towards a socialist society.

Instead came the Cold War and massive military spending even in "peacetime." In the United States at least, spending on public works was increasingly limited to the construction of new highways to encourage purchases of private automobiles at the expense of pubic transportation—or neglected altogether. Like many, perhaps even most, postwar Marxists, Sweezy and other supporters of the Monthly Review School believed that in the absence of progressive government spending policies it was only military spending that was staving off the return of the Depression.

Seeing no socialist potential in the U.S. working class at all, Sweezy largely abandoned hope of progressive change within U.S. society. Instead, he transferred his hopes to the national liberation movements and revolutions that swept the former colonial and semi-colonial countries of the "Third World" countries. His hopes were especially raised by the Chinese Revolution under the leadership of Mao-Zedong, though he was surely disappointed by the polices of Mao's successors. (13)

Sweezy, however, had genuine difficulty explaining why the U.S. government cut back rather than expanded New Deal policies into a genuine "full employment" policy after World War II. In "Monopoly Capital," he and Baran actually predicted that U.S. big business itself would push for higher spending by the government and even higher taxes in order to ensure sufficient "monetarily effective demand." In this way, Baran and Sweezy believed the giant corporate monopolies would actually realize their potential profits—the surplus—in the form of high monopoly profits.

If the U.S. government had followed at least to some extent a progressive Keynesian policy, such policies should have greatly strengthened U.S capitalism, according to Baran and Sweezy's analysis. Didn't the capitalists understand their own interests? Why were they so blinded by conservative ideology that they opposed "tax and spend" policies that would actually increase their profits.

In "Monopoly Capital," Baran and Sweezy developed a theory that individual sectors of the capitalist class were obstructing reforms that would in theory, they believed, be in the interests of the capitalist class as a whole. For example, the real-estate interests strongly opposed and succeeded in destroying New Deal-era public housing programs. Apartment owners obviously did not want competition from government-owned housing.

In the October 2010 *Monthly Review*, Foster puts forward a similar argument. He seems to believe that a massive program of government spending aimed at increasing effective demand while carrying out long overdue social reforms could bring about a full employment monopoly capitalism that would overcome the stagnation inherent in monopoly capitalism when left to its own devices.

However, the dominant portion of the capitalist class, what Foster calls "monopoly-finance capital"—the big banks and other financial institutions—are opposed to these polices. Perhaps we see an echo here of Keynes's belief that the interests that controlled the Bank of England were opposing the further reduction of interest rates to the level that would ensure a return to an equilibrium at full employment.

What is really needed, according to *Monthly Review* is a movement that isolates the "monopoly finance capitalists" within the capitalist class and builds coalitions of a revived labor movement with those sections of the capitalist class that would support Keynesian full-employment policies that would not only end mass unemployment but increase their profits. This would represent a revival of the Popular Front-New Deal politics of the 1930s. Foster himself seems, however, to be increasingly pessimistic about the prospect of actually building such a movement in the foreseeable future.

The conservative conclusions of the 'General Theory'

To return to the "General Theory," Keynes concluded that the marginalist analysis of employment was basically correct. The only real mistake the marginalist had made was that they had assumed that the special case of equilibrium at full employment was the only possible equilibrium state. They had created a correct "special theory of employment" but failed to realize it was a special case.

According to Keynes, as long as equilibrium occurs at full employment, the marginalist argument is correct. "But," Keynes wrote in the concluding chapter of the "General Theory," "if our central controls succeed in establishing an aggregate volume of output corresponding to full employment as nearly as is practicable, the classical theory [Keynes is referring to the "classical" marginalist theory—SW] comes into its own again from this point onwards." (Chapter 24, "General Theory of Employment, Interest and Money")

Assuming full employment, which Keynes believed could be achieved by correct policies of the government and the monetary authority, every factor of production— capital, labor and land—is properly rewarded according to its relative scarcity. The distribution of the national income will then be one that encourages the maximum economic efficiency and be socially most just exactly as the marginalists explained.

Guided by the free market, industry will produce the goods in the the proportions that best meet the needs of economic efficiency and the desires of the population. Therefore, despite the attempts of many over the years to draw socialist conclusions from it, Keynes's "General Theory" is not so much a replacement as a mere amendment to the traditional marginalist theory.

Needless to say, the vast majority of the people of the world, who unlike Keynes were and are not rich, would disagree. Even if we abstract the question of unemployment and expenditures of militarism and war, the capitalist economy uses a huge percentage of the labor available to society in production of luxury commodities for the rich while the needs of the workers are met only to the extent that the workers are necessary to produce the surplus value that enables the capitalists to live without working. None of the reforms that Keynes foresaw in the "General Theory" would change this.

Keynes also believed that once government actually adopted such "full-employment" and "counter-cyclical" policies, as they came to be called, to flatten the fluctuations of the trade cycle, the Marxist criticisms of capitalism would be disarmed. According to Keynes, in the future as capital continued to accumulate—assuming that the rate of growth of the population slowed—the rate of interest would fall to zero. This would mean that it would become impossible to live off interest and the rentier—money capitalist—would, as Keynes put it, be euthanised.

Since productive capital would no longer be scarce relative to human needs for the goods it could produce, the "wages" of the entrepreneurs and their "economic profits"—their "reward" for risk-taking and innovation—would decline relative to the wages of ordinary workers.

As the average rate of profit—or marginal efficiency of capital—approached zero, there would be no more expanded reproduction. Simple reproduction—or a "stationary state," as John Stuart Mill put it—would replace expanded reproduction. Economic growth having done its work and eliminated scarcity would no longer be necessary. Unlike Marx, Keynes believed that would happen within the capitalist system of private ownership of the means of production and wage labor. Keynes thought this might be achieved in about 30 years—by the 1960s. This "post-scarcity" capitalism would be the final form of human society.

The Monthly Review School and the prospects for socialism

The Monthly Review School under the influence of Keynes seems to really believe that Keynesian policies could work if only the resistance of "special interests" within the capitalist class—but not the capitalist class as a whole—that stand in the way could be broken. But is this really true?

If we for the sake of argument assume that Keynesian policies can really work and a post-scarcity "full employment" monopoly capitalism can be achieved, wouldn't this make socialism unnecessary? And if socialism is unnecessary, then according to the tenets of historical materialism isn't socialism a utopia? Instead of fighting for a workers' government that will build a "socialist utopia," shouldn't we fight for a government of all people of good will regardless of class who will implement truly progressive Keynesian policies of full employment by spending the money necessary to achieve full employment in ways that actually meet the needs of the people rather than on militarism and war? (14)

Next month, I will examine the real-world effects of Keynesian economic policies. We will then be able judge whether Keynesian policies can really bring about "full employment," or whether notwithstanding Keynes's work, socialism remains very much a historic necessity.

Are Marx and Keynes Compatible? Pt 4

The Keynesian revolution in economic policy

Before Keynes, neo-classical marginalist economists believed that capitalism was stable if left to its own devices. These economists held that a capitalist economy tended strongly toward an equilibrium at full employment of both workers and machines. Therefore, if a recession were to occur the response of the authorities should be pretty much confined to having the central bank lower the discount rate. Otherwise, the government should stay out of the way. As long as it did, the marginalists claimed, the capitalist economy would quickly move back to its only possible equilibrium position, "full employment."

The events that followed World War I, especially the U.S.-centered Great Depression of 1929-1941, discredited this view. Under the influence of Keynes—and more importantly the Depression itself—most of the new generation of (bourgeois) economists believed that it was now the duty of the capitalist government to actively intervene whenever recession threatened.

Bourgeois economics split in two. One branch, purely theoretical, is called "microeconomics." Microeconomics is simply the old marginalism. The branch that emerged from the Keynesian revolution is called "macroeconomics."

Macroeconomics tries to explain the movements of the industrial cycle. More importantly, it seeks to arm the capitalist governments and "monetary authorities" with "tools" that will keep the capitalist economy from sinking again into deep depression with the resulting mass unemployment. The new stance of the bourgeois economists was that if the capitalist governments and their monetary authorities use the "tool chest" provided them by macroeconomics correctly, they should be able to maintain "near to full employment with low inflation."

Full employment was defined by this new generation of (bourgeois) economists not the way workers would define it—everybody who desires a job can quickly find one—but rather as a level of unemployment sufficiently high to keep the wage demands of the workers and their unions in check but low enough to prevent wide-scale unrest that could lead to working-class radicalization and eventually socialist revolution.

Different tendencies in Keynesian economics

To the left of the "official" Keynesian economists were progressives who hoped the "tools" provided by the new "macroeconomics" would be used by progressive governments to actually improve the position of the working class and other exploited and super-exploited sections of the population. These economists have become known as "post-Keynesian" economists.

These progressives noted that the old pre-Keynesian "orthodox" marginalist economists held that government should take no responsibility for unemployment, poverty, poor educational levels, lack of medical care and other social problems.

In contrast, Keynesian economics implied an active role for the government in combating these social problems. Left progressives who hoped for a gradual evolution toward socialism believed or at least hoped that the "Keynesian revolution" by acknowledging the responsibility of government in dealing with unemployment and other social problems represented a significant step forward in the general direction of socialism.

To the right of mainstream "neo-Keynesian" economists was a reactionary minority who clung to the old-time marginalism. These economists, notwithstanding the Depression and other crises in the history of capitalism, claimed that old-time pre-Keynesian marginalist economists were correct when they held that capitalism is a stable economic system that tends very strongly towards "full employment" as long as the government doesn't interfere and unions are weak or nonexistent.

These reactionaries, in contrast to the followers of both Marx and Keynes, have blamed the Depression of the 1930s and other lesser crises in the history of capitalism not on the inherent instability of capitalism but rather on government intervention in the economy.

According to these economists, now known as "neoliberals," government intervention along with the trade unions are the real cause of economic crises, unemployment and related social problems. Centered largely in the economics department of the University of Chicago, these economists include the Austrian School economists and the somewhat more pragmatic and flexible followers of Milton Friedman.

Oddly enough, these reactionaries agree with left Keynesian progressives in their belief that Keynesian economic policies will eventually lead to socialism, which they term "socialist serfdom."

Monetary Keynesianism

Keynesian "stabilization policy" depends on two main tools—monetary policy and fiscal policy. Monetary policy is defined as the policies followed by the central bank or monetary authority that issues the legal tender currency. The central banks use their power to issue legal tender currency to manipulate two variables: (1) the money supply, which in addition to legal tender token money created directly by the monetary authority includes the credit money—checkbook money—created by the commercial banking system; and (2) the level of interest rates.

If the central bank wants to lower interest rates, it increases the quantity of monetary tokens—legal tender currency—it creates, and if it wants to raise interest rates, it reduces the quantity of its monetary tokens or at least the rate of growth of the monetary tokens it issues.

Keynesian economists and for the most part the central bankers themselves favor a policy of targeting interest rates. As a general rule, the central bank moves to reduce interest rates during recessions and higher than average unemployment and increase interest rates during periods of economic boom, inflation, and lower than average unemployment. Keynesian economists advocate flexible interest rates aimed at maintaining "near to full employment"—as defined by the Keynesian economists—with "low inflation."

The followers of the late neoliberal Chicago University professor of economics Milton Friedman advocate monetary policies aimed at stabilizing the rate of growth of the broader monetary supply, which the Friedmanites hold will prevent both recessions and inflation.

Fiscal Keynesianism

The second tool that macroeconomics gives capitalist governments is known as fiscal policy. Fiscal policy refers to the taxing, borrowing and spending policy of the central government itself. Keynesian economists believe that the central government should deliberately run deficits financed by borrowed money during periods of higher than average unemployment. During periods of boom and lower than average unemployment, Keynesian economists advocate that the government runs budgetary surpluses to reduce "excess demand" and thus fight inflation.

Left-of-center progressive Keynesian economists advocate relying on fiscal policy, not monetary policy, as the main stabilization tool. The progressives do this because fiscal policy can be used not only for "stabilization purposes" but also to directly deal with social problems such as poverty and chronic unemployment, low levels of education and skill among the impoverished, lack of medical care available to the poor, homelessness and other social problems.

Conservative pro-business "neo-Keynesians" put far more emphases on monetary policy. While fiscal policy *can* support government action that implements social policies in the interest of the working class and its allies among oppressed sections of the population, monetary policy has no such potential.

The conservative neo-Keynesian economists claim that a correct monetary policy that encourages "economic growth with low inflation"—read high profits—will solve social problems automatically through capitalist economic growth itself. This view shades off to the neoliberal views of the followers of Milton Friedman, who see little or no role for fiscal policy in "stabilization policies" or in dealing with social problems.

Monetary Keynesianism and the industrial cycle

Let's examine the actual effects of Keynesian policies on the industrial cycle. Can a capitalist government using some combination of fiscal and monetary polices really stabilize the capitalist economy and ensure "near to full employment with low inflation," leaving aside for the moment exactly how we define "full employment"?

First, I will examine "monetary Keynesianism"—the use of monetary policy to manipulate interest rates to achieve "near to full employment with low inflation." As I explained last month, Keynes's "General Theory"—the bible of Keynesian economics—implies that at least in theory it should be possible to ensure "full employment" with "low inflation" using monetary policy alone. Though for reasons that I examined in last month's reply, Keynes himself didn't believe that monetary policy would be sufficient in practice.

In last month's reply, we saw that according to Keynes—and the traditional marginalists—the capitalist economy moves toward an equilibrium where the long-term rate of interest equals the rate of profit. Or what comes to exactly the same thing in Marxist terms, the capitalist economy moves toward an equilibrium where the profit of enterprise is zero.

Pre-Keynesian marginalists and post-Keynesian "neoliberals" claim that the rate of interest and the rate of profit will equalize only at full employment. Keynes of the "General Theory" believed that the rate of interest could well equal the rate of profit at a point where there was considerable unemployment, both of machines and workers. This is what Keynes believed was happening during the post-World War I years, especially during the Depression years that started in 1929 and continued down to the outbreak of World War II.

Marx versus Keynes on capitalism's need for a positive profit of enterprise

John Bellamy Foster implied in the October 2010 issue of *Monthly Review* that there was no real difference between the analysis of Marx and that of Keynes on the question of equilibrium, where the economy is held to be in equilibrium when the average rate of profit equals the rate of interest whether or not there is "full employment." But if Foster believes this, he is mistaken. Marx *did not believe* that capitalism tends toward an equilibrium where the rate of interest equals the rate of profit. If the rate of interest equaled the rate of profit—with or without "full employment"—the capitalist economy *would not* be in equilibrium. Why not?

As I have explained in my main posts and other replies, when the rate of interest equals the rate of profit, the profit of enterprise is zero. Under these conditions, the incentive to *produce surplus value* is destroyed.

Why would capitalists take the additional risk of carrying out an industrial or commercial enterprise if they expect to realize a rate and mass of profit that is no more than they could get by simply purchasing risk-free government bonds—leaving aside for now the risk of currency depreciation?

Since capitalism is an economic system aimed at maximizing the production of surplus value, there is no way a situation that destroys the very incentive to produce surplus value can represent a capitalist equilibrium.

Indeed, in the absence of an incentive to produce surplus value, there is no incentive to carry out any production at all. Industrial and commercial capitalists, including those collective industrial and commercial capitalists known as "giant corporations," hold out for a rate of return *in excess of the rate of interest* on long-term government bonds—that is, a positive profit of enterprise.

For example, if the rate of interest on long-term government bonds is 5 percent, competent (1) industrial or commercial capitalists would never consider undertaking an industrial investment unless they had good reason to expect to earn a rate of profit in excess of 5 percent. If our industrial (or commercial) capitalists cannot find investment opportunities that to the best of their judgment will yield a rate of return that exceeds 5 percent, they will prefer to buy government bonds or loan out their money in some other way on the money market.

They will do this until either the rate of interest falls below the rate of profit or the rate of profit rises above the rate of interest. This is most obviously true if our industrial or commercial capitalists borrow capital, since in this case they will have to yield the interest part of the profit to actual owners of the borrowed capital. Therefore, if the rate of interest is equal to the rate of profit, they will realize a zero rate of return on any borrowed capital. But even if they work entirely with their own capital, no industrial or commercial capitalists will carry out an investment if they expect a rate of return that is no higher than the long-term rate of interest.

Average rate of profit

In addition, the industrial (and commercial) capitalists will generally only consider new investments that in their judgment will yield at least the average rate of profit. Or what comes to the same thing, investments in those industries that are expected to yield higher than average profits. Therefore, Marx's average rate of profit is what is called in the business world the "hurdle rate"—the rate of expected profit below which no new investment will be undertaken. The industrial and commercial capitalists always strive not to realize average rates of profit but super-profits above and beyond the average rate of profit.

Financialization vindicates Marx not Keynes

Therefore, if long-term interest rates do equal the average rate of profit, a portion of the industrial and commercial capitalists will transform themselves into money capitalists. This process continues until the rate of interest drops below the average rate of profit, restoring a positive profit of enterprise. Remember, the profit of enterprise is defined as the difference between the (average) rate of profit and the long-term interest rate.

Therefore, what Keynes and the pre-Keynesian marginalists considered an "equilibrium" is no equilibrium at all. The whole experience of "financialization" that grew out of the historically high

interest rates that followed the inflation and the "Volcker Shock" of the 1970s and early 1980s should settle the question as to who was right on this point—Marx on one side or the marginalists including Keynes on the other.

As interest rates soared as a result of the 1970s stagflation crisis, corporations that had been historically mostly industrial (or commercial) firms increasingly turned themselves into financial corporations—collective money capitalists—since it was more profitable for them to invest in interest-bearing loans. They therefore increasingly abandoned their traditional lines of business.

Marginalists explain away surplus value

The error of the marginalists flowed not from their stupidity but from their attempt to *explain away surplus value—profit*. When the marginalists claim that "in equilibrium" there is no "profit"—meaning profit of enterprise, or in marginalist terminology "economic profit"—but only interest, they have *already explained away the lion's share of the surplus value*. That only leaves interest and rent, simplifying the marginalists' apologetic work.

Interest was then explained as simply resulting from the "scarcity of capital"—just like rent was explained as arising from scarce land—and not labor performed free of charge for the capitalists and other exploiters by the working class. When we deal with surplus value, the most important category in all of economics, or its fractional parts—profit of enterprise, interest, rent, and incomes that are derivative of these primary incomes, like the wages or salaries of unproductive workers—we must keep the difference between the marginalists—including Keynes—and Marx crystal clear. When we deal with surplus value, we are dealing with nothing less than the exploitation of the working class by the capitalist class.

Marx versus Keynes on value, price and money

Both Keynes and Marx realized in contrast to the pre-Keynesian marginalists that the rate of interest equalizes the supply and demand not of "scarce" capital nor of "savings and investment" but rather the supply of and demand for money. Where Keynes and Marx differed was on *what exactly is money*.

To Marx, money was the universal *equivalent form of the commodity relationship of production*, which must of necessity be mediated by a special commodity that measures in its own *use value* the value of all other commodities. Marx's analysis of money therefore required that money itself be a commodity, a product of human labor that has a definite use value measured in the unit appropriate for that use value—for example, precious metals measured in terms of weight.

Money material is therefore created by industrial workers who labor in gold mines, not by central or commercial bankers who perform their duties in well-appointed air-conditioned offices. This is true notwithstanding the fact that money can be replaced in circulation by monetary tokens made of base metals or paper and ink and by credit money.

Therefore, the quantity of money in the broad sense of paper money and credit money *in terms of its real purchasing power* is ultimately limited by the actual quantity of money material. It is therefore the total quantity of money material, and not as bourgeois economists believe the total quantity of commodities that can be produced by capitalist industry at "full employment," that limits the total quantity of currency in terms of real purchasing power that the monetary authorities can create.

Interest rates equalize supply and demand of money material

Therefore, the clear implication of Marx's theory is that interest rates will tend toward the point where the supply of and demand for money material—gold bullion—are equal. In Volume III of "Capital," Marx provided concrete statistics on prices and interest rates that show, in contradiction to the predictions of the quantity theory of money, that prices were very *insensitive to the fluctuations of the Bank of England's gold reserves* but that interest rates were *extremely sensitive* to fluctuations in the gold reserve. The obvious conclusion is that the global supply of and demand for monetary gold will determine the average rate of interest on the world market.

Keynes like virtually all "modern" bourgeois economists believed that gold could be replaced by a "managed currency" backed not by gold or another precious metal that functions as the money commodity but by commodities as a whole. If this could be done—but according to Marx's perfected theory of labor value it cannot be—the "monetary authority" would be able to lower interest rates to the level that would ensure "full employment." Even if this were possible—*which it is not*—it would, Keynes notwithstanding, actually be necessary to lower the rate of interest to a level below the rate of profit to ensure a positive profit of enterprise.

A real-life economic experiment and its results

In economics, we cannot generally conduct experiments to test rival theories like is often possible in the natural sciences. But during the 1970s, the U.S. Federal Reserve System and its satellite central banks in effect conducted a grand experiment that pitted Marx's theory of value against the marginalist theory of value—including its Keynesian form. At the end of the 1960s and the beginning of the 1970s, the U.S. Treasury faced a series of runs on its gold reserves that threatened the then-prevailing gold-dollar exchange world monetary system, known as the Bretton Woods System, with collapse.

The only way to save the Bretton Woods System would have been for the Federal Reserve to raise U.S. interest rates to the point that would reduce the demand for gold bullion sufficiently to end the run on the U.S. Treasury's gold reserves. The rise in interest rates would have to be carried out regardless of the consequences for "full employment" and economic growth. At the heart of the crisis of the international monetary system of the late 1960s and early 1970s was the hopeless contradiction between Keynesian macroeconomic stabilization policies on one side and the demands of the gold-centered Bretton Woods System on the other.

The policymakers of the U.S. government, backed up by almost all professional economists, were determined to apply Keynesian stabilization policies as opposed to raising interests rates sufficiently to save the Bretton Woods System. (2) If they had chosen instead to dump Keynesian stabilization policies and save the Bretton Woods System, the result would almost certainly have been a worldwide depression that if not necessarily equal to the Depression of the 1930s would still have been considerably worse than any of the relatively mild recessions that had followed World War II.

The conservative mainstream Keynesian economists represented by such economists as the strongly pro-capitalist "neo-Keynesian" Paul Samuelson strongly rejected such a course. They feared the political consequences of a worldwide capitalist depression that would have occurred when the example of the Soviet Union's planned economy and those of its allies still existed. Also such a depression would have taken place in the wake of the social unrest and antiwar movements of the 1960s. Therefore, the (bourgeois) economists and the politicians had good reasons to have a greater fear of economic depression than they had had in the past.

Death of the Bretton Woods System

The Keynesian economists saw in what proved to be the mortal crisis of the Bretton Woods international monetary system a tremendous opportunity to put into effect Keynes's dream of a worldwide system of "managed currency" that would finally eliminate the monetary role of gold. They believed that by eliminating the role of gold, the monetary authorities would finally be free to follow policies aimed at maintaining "near to full employment with low inflation" *without worrying about maintaining the convertibility of the currency into gold.* The policymakers of the right-wing Republican Nixon administration therefore agreed with the Keynesian economists that Keynesian stabilization policies had to be continued and therefore the Bretton Woods System was simply not worth saving. (3)

With the end of the last vestiges of the international gold standard, the Keynesian economists claimed—and the followers of Milton Friedman agreed with the Keynesians on this point—that the U.S. dollar and its satellite currencies would represent not a special money commodity such as gold but rather would draw their value from commodities as a whole. With the U.S. dollar established as a world "managed currency" in place of gold, the dollar would be issued in just the right quantities to keep interest rates low enough to ensure "near to full employment with low inflation." Why didn't it work?

Different laws govern token—paper—money and metallic money

Marx explained that the gold value of paper currency—token money—is determined by its quantity. All things remaining equal, a doubling in the quantity of paper money will lead to a doubling of nominal prices. In this sense and this sense only, Marx supported the "quantity theory of money."

The basic mistake of the supporters of the quantity theory of money is that they apply the laws *that apply to paper money to metallic money*. The Keynesians make the opposite mistake. They apply the laws *that apply to metallic money to paper money.*

An increase in the quantity of metallic money relative to commodities, all other things remaining equal, lowers interest rates and sooner or later leads to an expansion of the market. The Keynesian economists believed that they could achieve the same results by expanding the quantity of the paper money created by the monetary authorities—the central banks—once the role of gold in the international monetary system was eliminated.

Therefore, by getting rid of what was left of the international gold standard, many Keynesian economists believed that even relatively mild recessions of the post-World War II period would be eliminated in the future. They foresaw the final victory of Keynesian economics over the "business cycle."

In contrast to the rosy predictions of the Keynesian economists, Marx's theory of value predicts that any attempt to hold down interest rates by increasing the quantity of token or paper money, and indirectly the credit money created on the basis of the increased supply of monetary tokens, would fail.

Instead, we would expect to see currency depreciation against gold leading to a rise in prices measured in terms of depreciated paper money. The rise in prices in terms of currency would soon cancel out the growth in the "real" supply of money—the purchasing power of the total money supply. Over time, we would expect to see no lowering of interest rates, and the expansion of the market would continue to be dependent on the growth in the quantity of real money material—gold bullion—just as was the case under the international gold standard.

Nay, we would expect to see a rise in interest rates that would actually mean a slower growth of the market than would occur under a gold standard, assuming that the growth in the quantity of monetary gold is given. (4)

Any central bank attempt to drive down interest rates by increasing the quantity of the token—paper—money it creates naturally leads to expectations among the money capitalists of a continuing devaluation of the currency. When the money capitalists expect devaluation of the currency, they protect themselves by refusing to loan money unless the rate of interest rises to a level that reflects the perceived devaluation risk. If the prevailing market rates of interest do not sufficiently reflect this "devaluation risk," the money capitalists will instead hoard gold bullion—actual money material—until interest rates rise to a level that satisfies the money capitalists.

Therefore, when the monetary authority that issues the main world currency—the U.S. Federal Reserve System—pursues a policy of continued devaluation of the currency it issues, it is only a matter of time before the demand for gold bullion is driven to a frenzy, which then requires an extraordinary rise in the rate of interest before the supply of and demand for money material can again be equalized. If the monetary authority continues to resist the necessary rise in interest rates, the result will be the destruction of its token currency altogether.

At the end 1970s and the beginning of the 1980s, the demand for gold bullion was indeed whipped into a frenzy. In order to prevent the destruction of the U.S. dollar, the Federal Reserve finally stopped resisting the rise in interest rates. The "Volcker Shock" had arrived. Therefore, contrary to the views of the progressive Keynesian economists, the Volcker Shock was no mistake but absolutely necessary to prevent a far worse economic collapse of the world capitalist economy.

The devaluation of the world currency—against real money (gold)—and the resulting inflation was simply the market's way of forcibly raising the rate of interest when the "monetary authority" attempted to lower interest rates by "running the printing press"—issuing paper money that *was not backed by a comparable rise in the quantity of gold bullion*—real money.

Though the "Volcker Shock" was absolutely necessary for the capitalist economy in the wake of the "monetary Keynesianism" of the 1970s, the problems for the world capitalist economy did not end with the interest rate explosion that finally stabilized the U.S. dollar. Remember, the rate of interest cannot *in the long run rise above or even equal* the rate of profit. If capitalism is to continue to exist, there *must be a positive profit of enterprise.*

As interest rates in terms of commodities—real interest rates—as well as interest rates in terms of money material—gold—exploded, they wiped out the profit of enterprise destroying the incentive to produce surplus value. And without the production of surplus value, there can be no capitalist production at all.

How did the capitalists react to this situation? They reacted just as Marx said they would in what in his time was merely a hypothetical situation. A portion of the industrial and commercial capitalists—including those we call giant corporations—converted themselves into money capitalists leading to an inflation of credit that led to a prolonged fall in the rate of interest. This inflation of credit—above all, consumer credit backed by mortgages on residential real estate—was even given a name—"financialization." The fall in the rate of interest that occurred during "financialization" restored a positive profit of enterprise, which was absolutely necessary if capitalist production was to continue at all.

This, however, left one final step before capitalism could fully recover from the experiment in "monetary Keynesianism" carried out in the 1970s. (5) The excessive debt created by the post-Volcker Shock financialization had to be liquidated by a massive debt deflation. Unfortunately, such debt deflations are accompanied by particularly nasty and stubborn depressions with the resulting prolonged mass unemployment that we are now experiencing.

How monetary Keynesian policy interferes with process that brings about the economic recovery phase of the cycle

Keynesians complain about the "liquidity trap" that accompanies the stagnation-depression phase of the industrial cycle. The deeper the depression the greater the "liquidity trap." Therefore, the greatest liquidity trap in capitalist history occurred during the 1930s Depression. During the liquidity trap, there are great reserves of cash hoarded in the commercial banking system. It is characteristic of a liquidity trap that both the rate of profit and the rate of interest are low.

What the followers of Keynes don't realize is that *under the capitalist system of production* the liquidity trap is a *necessary* phase of the industrial cycle. The combination of both very low profits—or in many cases even negative profits—and very low interest rates at the bottom of the industrial cycle encourages the capitalists to hoard money in the commercial banking system as opposed to either investing the money productively (M—C..P..C'—M') or loaning it out at interest (M—M').

But it is exactly the accumulation of these idle monetary hoards centralized in the banks that constitute the material foundation for the "sudden expansion of the market" that ends the depression and ushers in the next period of prosperity.

How 'liquidity trap' is overcome in the course of economic recovery

As the liquidation of the overproduced commodities, including the overproduction of the means of production, in the form of destruction of "unprofitable factories and machines" proceeds, the rate of profit recovers as prices stop falling and the turnover of (variable) capital rises sharply. Marx explained in Volume III of "Capital" that it is this *divergence between a high rate of profit and a still low rate of interest* that triggers the recovery. Capitalists—both individual capitalists and capitalist corporations—are encouraged to act as *industrial and commercial capitalists* (M—C—M') as opposed to *money capitalists* (M—M'). This encourages the "spirit of enterprise" that marks a "healthy" capitalist recovery.

But this is not what happened during the recovery of the 1980s and 1990s that followed the Volcker Shock. At the start of the recovery—in 1983—interest rates were still near historic highs. Therefore, instead of a rise in capital investment (M—C..P..C'—M'), a lot of money capital was instead diverted into the circuit M—M'. Demand recovered not due so much to a rise in capital investment leading to a rise in employment in general and industrial employment in particular but due to a vastly increased availability of consumer credit, particularly mortgage credit, in the imperialist countries.

Therefore, instead of the usual sudden expansion of the market caused by a dehoarding of previously hoarded currency—and a subsequent increase in the velocity of money—we had a huge rise in the quantity of mostly consumer credit, especially mortgage credit. Or what comes to exactly the same thing, we had "financialization."

Interest rates finally returned to something like historically normal levels at the turn of the 21st century, stimulating a manic expansion of consumer debt—especially mortgage credit. Credit was stretched to the limit during the 2003-2007 upturn and finally burst in the 2007-09 "Great Recession."

What if the capitalist governments had saved the Bretton Woods System?

Suppose as a "thought experiment" that the U.S. government and other governments and central banks had made the opposite decision at the end of the 1960s and the beginning of the 1970s and decided to defend the Bretton Woods System, even if this meant abandoning at least for awhile "Keynesian stabilization polices"?

If this had happened, there would have been a major drop in prices—in terms of both dollars and gold, which by definition under a gold standard would have been the same thing. The result would have been a very nasty global crisis of overproduction with resulting mass unemployment throughout the capitalist world. But the crisis would also have led to a major *drop* in interest rates, in contrast to the huge *rise* in interest rates that actually occurred.

Remember, in the real world, there was an unprecedented rise in interest rates, first nominal but then "real," accompanied by the deep recessions of 1974-75 and 1979-82 as well as the lesser recession of 1969-70. This series of back-to-back recessions created a considerable unemployment

crisis. If the U.S. government instead had chosen to defend the Bretton Woods System, the resulting depression would have also created an unemployment crisis. But this depression would have run its course during the 1970s as the overproduction of commodities was liquidated. As the conditions that make the realization of value and surplus value possible were restored combined with the rise in the rate of surplus value caused by mass unemployment, profit rates would have soared as interest rates remained low.

Then for the rest of the century, the development of the capitalist economy would have been far "healthier" than it was—far more capital investment, far less inflation of credit and, we can assume, lower unemployment. Financialization would have been avoided. And when the inflation of credit did occur near the end of the hypothetical new "prosperity"—as surely it would have—it would have been to a far greater extent the inflation of corporate credit as opposed to consumer—mortgage—credit. This would not, of course, have prevented our hypothetical healthy capitalist "boom" from ending in a new bust.

We now know that the monetary Keynesianism that was applied in the real world failed to provide anything like "near to full employment with low inflation." What we do not yet know is how exactly the debt crisis created by monetary Keynesianism will finally be fully resolved. The current attempt by the U.S. Federal Reserve System to deal with the debt problems created by earlier monetary Keynesianism through "quantitative easing,"—that is, by a renewed dose of "monetary Keynesianism," seems to have little chance of ending other than very badly if Marxist theory—not to speak of real-world experience—is any guide.

The fact that the representatives of the capitalist ruling class can come up with nothing better than to repeat the failed experiment with monetary Keynesianism is a sure sign that it has come into hopeless conflict with the needs of the further development of humankind's productive forces. Therefore, by applying Marx's theory of historical materialism we can see that the capitalist class is in the process of dissolution.

Gold standard cannot prevent crises

The failure of monetary Keynesianism does not mean that a new gold standard can deliver a crisis-free capitalism as some right-wing anti-Keynes bourgeois economists claim for all the reasons that I explained in my main posts.

On the contrary, under the international gold standard there were many capitalist crises of generalized overproduction, some quite severe, even leaving aside the special case of the 1929-33 super-crisis. What must be kept in mind is that the only way to eliminate periodic capitalist crises without destroying modern civilization is to transform capitalism into socialism.

No monetary reform, whether a revived international gold standard, Milton Friedman's stable growth of the money supply, or as we have seen, monetary Keynesianism, can solve the problem of capitalism's periodic crises of overproduction, with the economic stagnation, mass unemployment and further growth of monopoly these crises bring in their wake.

Clearly, as real-world experience has shown, monetary Keynesianism has failed to deliver on its promises. But what about fiscal Keynesianism? Can it solve the problem of periodic crises of overproduction? We'll examine this question in the second part of this monthly reply, which will be posted next week.

Are Marx and Keynes Compatible? Pt 5

Keynesian economists blame their failure on the trade unions

Keynesian economists in general—and some Marxists influenced by them—blame the failure of the Keynesian policies of the 1970s on the trade unions. (1) Basing themselves on Keynes, they falsely blame the inflation of the 1970s not on the inflationary monetary policies of the central banks that were so strongly supported by Keynesian economists at the time but on the trade unions.

These economists claim that by achieving raises in money wages during the inflation, "over-strong" unions were responsible for the inflation of the 1970s. Supposedly, a "wage-price spiral" pushed money wages relentlessly higher forcing the central banks to periodically raise interest rates to prevent even worse inflation, which in turn led to the recessions and unemployment of the 1970s and early 1980s.

However, in reality it was the trade unions that found themselves increasingly on the defensive as both inflation and unemployment rose during the 1970s and into the early 1980s. What the Keynesian economists call the "wage-price spiral" of the 1970s was really a "price-wage spiral." The unions were only reacting to the ongoing inflation in their attempts to maintain—not entirely successfully—the living standards of their members.

Fiscal Keynesianism

Left-wing Keynesians, and Keynesian Marxists like John Bellamy Foster who greatly admire Keynes's work, hold that the failures of the 1970s were caused by the reliance on monetary policies to carry out "stabilization policy" as opposed to fiscal polices. If the governments had fought the recessionary trend that set in after the 1960s boom by increasing government spending instead of implementing inflationary monetary policies, the economists hold, the postwar prosperity could have been saved and the inflation and financialization—and finally the "Great Recession" of 2007-09—that the policies led to would have been avoided.

Most Keynesian economists hold that it is *deficit spending* that increases demand, economic growth and employment. Mainstream Keynesian theory holds that extra demand is created by the *difference* between what the government takes in in current taxes—taxes that, all things remaining equal, reduce demand—and what the government spends. When spending exceeds current taxation, the Keynesians argue, an extra demand is created. In turn, this extra demand is magnified perhaps three to five times over by the multiplier and accelerator effects.

As the state and its dependents spend what would otherwise be hoarded money and employment rises, this leads to more hiring and spending. This is the multiplier effect. The absorption of excess capacity due to the multiplier effect leads to a rise in investment on the part of industrial capitalists. The rise in investment generated by an initial rise in spending for consumer goods is called by the (bourgeois) economists the "accelerator effect."

Therefore, Keynesian theory holds that a relatively small initial increase in demand created through government deficit spending through the combined multiplier and accelerator effects sets in motion a far greater increase in "monetarily effective demand" that leads to "full recovery" with a return to "near to full employment." The policy of creating an initially modest rise in demand through increased government deficits with the hope of achieving a far greater increase in demand is sometimes referred to as "priming the pump."

The Monthly Review School goes further than the Keynesians themselves go, as I explained last week, by claiming that government spending even if it is *financed entirely by current taxation* increases total monetarily effective demand by the exact amount of money that the government spends. If Sweezy and Baran's "Monopoly Capital" were correct on this point, the advantage of increased government spending financed out of current taxation is that the dangers associated with an increased public debt and a rising burden of future taxation can be avoided.

Therefore, "Monopoly Capital" implies, and Foster seems to believe, that full employment can be achieved *without abolishing capitalism* if only the government is willing to increase its spending up to the level that fully "absorbs the surplus." The Monthly Review School looks forward to a new "New Deal" that would actually follow such a policy, though after their hopes were briefly raised by the election of Democrat Barack Obama and the election of a solidly Democratic Congress in the 2008 U.S. elections, they now seem to have become quite pessimistic about such a "New Deal" in the foreseeable future.

Contradictions of fiscal Keynesianism

But such fiscal Keynesianism has its own contradictions. In "Monopoly Capital," Baran and Sweezy predicted that the giant corporations would press for increased taxes on themselves so that the huge "potential surplus" that they "generate" through their monopoly pricing power could be "absorbed"—therefore solving the problem of realizing "the surplus." Or what comes to the same thing, Baran and Sweezy held that the potential surplus generated through monopoly pricing power would be transformed into actual monopoly super-profits by having the government tax it away and then return the money by buying either directly or through its dependents the commodities produced by the monopolies at monopoly prices.

However, in the 50 years since "Monopoly Capital" was written, the giant corporations have not followed the course that its authors predicted. Instead, they have succeeded in winning one tax cut after another.

Why have the monopoly capitalists, which certainly dominate the U.S. government as well as the governments of the satellite imperialist countries, failed to follow the policies that "Monopoly Capital" predicted they would? Is it because the men—and in recent years a very few women—who run the corporations are blinded by their ideology? Or maybe the problem is that they have not read "Monopoly Capital" and fail to understand their true interests.

Can increased government spending financed out of current taxation solve the problem of the chronic inability of the market to grow as fast as production and thus provide what the Belgian Marxist economist Ernest Mandel (1923-1995) called a "replacement market"? Where monetary Keynesianism has clearly failed, could fiscal Keynesianism succeed?

First, let's examine the case where taxes are financed out of wages. By that I mean that not only do taxes fall only on wages, but I also assume that the workers are unable to win rises in pre-tax wages that would shift at least some of the tax burden back on capital. Since the workers have to spend all their wages in order to live, it is hard to see how taxing wages will increase overall demand. Workers, as Keynes himself realized, have little choice but to spend their wages income right away. Therefore, the effects of taxing wages will be simply a redistribution of purchasing power from the workers to the state and its dependents.

But what if profits are taxed instead of wages, like all progressives including the Monthly Review School and all other Marxists advocate? Let's assume that taxes fall entirely on profits. Any taxes that hit wages are transferred back to capital by rises in before-tax wages that offset the taxes. In order to draw the conclusions that Baran and Sweezy drew, we have to assume that (1) the taxed capitalists would have hoarded the entire taxed profit if it had not been taxed; and (2) that the reduced, after-tax rate of profit will have no adverse impact on capitalist investment.

If the monopoly corporations believe that the rate of profit on additional investment will be so low that they prefer to hoard the profits in money form, wouldn't they hoard a portion of the untaxed profit? The after-tax rate of profit—which is, after all, what matters to the capitalists—would still be below the already "inadequate" pre-tax rate of profit from the viewpoint of the monopoly corporate capitalists.

Capitalist production is production for profit

What Baran and Sweezy have forgotten is that industrial corporations are not interested in producing commodities for the sake of selling them, but are only interested in producing and selling commodities to the extent that it enables them to "earn" a higher profit than they would have earned in the form of interest—if they had not produced and sold the commodities. Capitalist production is production for profit and only for profit.

If government spending is financed out of current taxation on profits, the capitalists as a whole will in effect be paying the state or its dependents to purchase their commodities. The result of this transaction is a *reduction of profits* for the social capital and reduced incentive to produce commodities. Any stimulation of particular corporations or groups of corporations, such as the "military-industrial complex," will be more than offset by the depressive effects of taxation on the industrial corporations as a whole.

This is realized by mainstream Keynesian economists if not by Baran and Sweezy. Therefore, expanding government spending that is financed out of current taxation will, all things remaining equal, lead to stagnation not growth.

How can government spending financed out of current taxation stimulate economic growth and employment?

There are situations, however, where increased spending by the government that is entirely financed out of current taxation on profits (or from the viewpoint of the capitalists, even better on wages) can increase profits and thus economic growth and employment in a capitalist economy.

For example, if the government spends the money on transportation projects such as canals, railways, highways, ports and so on that private capital is not itself willing to undertake—or is willing to undertake only if part of the expense is undertaken by the government through subsidizing private corporations—the turnover rate of capital and with it the variable portion of capital that alone produces surplus value is increased.

The result of the increase in the turnover rate of variable capital will raise the rate of profit in a given time period. In this case, government spending can indeed increase the annual rate of profit and thus investment and economic growth and with it the demand for labor power. The shortening of the turnover period of (variable) capital achieved by improved means of transportation will then more than pay for the expenses of taxation.

This is why the champions of industrial capitalism in 19th-century United States such as Abraham Lincoln and his Whig Party (and later the new Republican Party) championed what were called "internal improvements"—government spending on means of transportation, often through the quite scandalous subsidization of corporate-owned transportation companies.

As always, however, a rise in economic growth and therefore a faster growth in employment and lower unemployment will be achieved only if the increased mass of surplus value is actually realized in money form. If, however, a capitalist economy already has more means of transportation than it can use for profit-making purposes, spending taxes on additional means of transportation will have none of these favorable effects.

When politicians representing the industrial capitalists, such as the 19th-century Whig and Republican parties, advocated increased government spending on "internal improvements," they were dealing with the problems of a young, rapidly expanding capitalism, not the stagnating capitalism that concerned Keynes and his followers.

The same analysis can be applied to government spending on education. If an expanding capitalist economy suffers from a lack of educated skilled workers, government spending on education, even if it is entirely financed out of current taxes on profits, can pay for itself from the viewpoint of the capitalists by providing an increased pool of needed qualified labor powers. Indeed, such taxes will pay for themselves all the more since by increasing the supply of skilled labor powers, the wages of skilled labor will be driven downward, still further increasing the production of surplus value.

However, if the problem is not a lack of skilled labor power necessary to produce surplus value but rather the inability to realize surplus value that has already been produced—or could be produced if the existing supply of skilled labor were fully employed—increased spending on education financed at least partially out of profits will only reduce the profits appropriated by the capitalists, not increase them. This is why spending on education is under attack in the United States and Europe today.

The 'Treasury view'

In contrast to the Monthly Review School, most Keynesian economists, including Keynes himself, claimed it was *deficit spending* that was the key to lifting an economy out of depression. The view of anti-Keynesian bourgeois economists—sometimes known as the "Treasury view" after the British treasury officials who opposed the proposals of former Liberal Prime Minister Lloyd George and Keynes for large-scale deficit spending to combat Britain's 1920s unemployment crisis—was that increased government deficit spending would not stimulate spending overall, since increased state borrowing would be exactly offset by reduced private borrowing and spending.

Fallacy of the Treasury view

While the Treasury view is more or less true in a boom, it is not true in a depression. In a depression, there are not only considerable idle productive forces, including of course unemployed workers, there are also hoards of cash lying idle in the banks. While the first point is widely understood, the latter is often ignored. Keynesians and many Marxists who have not fully understood Marx's perfected theory of value believe that if there is not enough money, the "monetary authority" can simply print any additional money necessary as long as there are idle

productive forces and workers. As we saw in [our examination of monetary Keynesianism](), this is not true.

However, this does not change the fact that under post-crisis depression conditions, there are considerable hoards of *idle cash*. Therefore, under these circumstances the government can increase its borrowing with very little immediate impact on long-term interest rates. This explains the seeming paradox that the more depressed the capitalist economy is, the larger the deficits the government can run without causing long-term interest rates to rise and therefore cancel out the stimulative effects of "deficit spending."

Deficit spending can take two forms. The government can merely cut taxes—the policy favored by reactionaries—or it can increase spending—the policy favored by progressives in the hope that the government will use the borrowed funds in ways that will aid the workers and their allies among other oppressed people.

For example, the government can spend on payments to the unemployed, direct employment by the government of the unemployed, public housing and education. The capitalist government can also increase its spending for war purposes—that is, follow a policy of "military Keynesianism." A policy of cutting taxes favored by reactionaries allegedly to increase economic growth was called "supply-side economics" in the 1980s by the supporters of Ronald Reagan.

However, cutting taxes on the rich and corporations does little good during and in the aftermath of a crisis of overproduction, because profits are too low to create prosperity not because too much surplus value is being appropriated by the government in the form of taxes but because the value, including the surplus value, contained in commodities cannot be realized due to a lack of monetarily effective demand.

Instead of tax cuts for the rich and the corporations, progressives urge that spending be increased without cutting taxes. This they hold will increase demand for commodities either directly through increased state expenditures or indirectly through the increased purchasing power of the dependents of the state.

Progressives advocate increasing deficit spending on social programs that help the workers and the oppressed—not the military—so that social problems caused by mass unemployment and the lack of "adequate effective demand" for commodities that causes unemployment can be dealt with simultaneously.

Contradictions of deficit spending

However, deficit spending is not the magic remedy for the tendency of production to grow faster than the market that Keynesian economists believe it to be. First, deficit spending merely postpones an increase in taxation because government debts have to either be repaid or, more realistically, the interest payments coming due on government bonds have to be serviced.

The danger is that the part of the budget of the central government that goes to paying the debts due wealthy owners of government bonds will grow at the expense of any help the unemployed workers or other oppressed sections of the population enjoy. The more deficit spending the government engages in during a depression, the higher the burden of the public debt—the one part of national wealth that really belongs to the nation, as Marx ironically put it—will be in the future.

In addition, even if depression-time deficit spending does not raise long-term interest rates while the depression lasts, it does increase the mass of outstanding debt that exists on the money market when economic recovery sets in. This will tend to cause long-term interest rates to start rising earlier and faster than would be the case in the absence of such debt. This not only will shorten the boom but contains the risk that unemployment at the peak of the next boom will be higher than it would be in the absence of deficit spending.

Deficit spending powerless to prevent outbreak of crisis

It should be noted here that Keynesian-style deficit spending is completely powerless to prevent the outbreak of the crisis. On the eve of the crisis, there is a growing shortage of loan money, not the glut of loan money that characterizes the post-crisis depression period. If the government attempts to increase deficit spending to prevent a looming crisis, the effect will be increased competition for the already too-small supply of credit between the government, consumers and business. This will drive an already high rate of interest higher and cut off loans to a portion of either the commercial or industrial capitalists or to consumers—for example, would-be home buyers.

Keynesians of all types believe that this problem can be dealt with by having the "monetary authority" print more money. But as we already saw, this is exactly what the state or its monetary

authority cannot do without incurring all the contradictions of monetary Keynesianism. Therefore, deficit spending by the central government can at best shorten the period of depression.

The period of depression as a rule will only be shortened by deficit spending if it begins after the crisis-recession has already "bottomed out." In this case, there will be no reduction in the intensity of the crisis itself. But if the state deliberately increases its deficit spending during the crisis, it risks intensifying the crisis.

This is exactly what happened during the crisis of 2007-09. As recession set in after the initial panic of August 2007, U.S. President George W. Bush negotiated a "stimulative plan" with the Democratic Congress designed to pump $168 billion worth of purchasing power into the economy through tax rebates. However, the tax rebates had to be financed through increased government borrowing. The result was that $168 billion of additional government debt was thrown at credit markets that were already reeling from the developing crisis.

Just five months after the first rebate checks were mailed out by the U.S. Treasury, the Lehman Brothers investment bank collapsed triggering full-scale financial panic. The 2008 panic, intensified all the more by the increased federal borrowing necessary to finance the $168 billion tax rebate program, caused a massive contraction of credit and purchasing power, which transformed what had been only a "mild recession" into the Great Recession. This was the exact opposite of what Bush's tax rebate program, inspired by Keynesian economics, was attempting to achieve.

But even if increased deficit spending during a recession-crisis does not

actually intensify the crisis like it did in 2008, it will tend to increase the duration of the depression-stagnation phase that follows the crisis, as occurred in the post World War II era when this policy was implemented.

After World War II, business came to expect that the governments would engage in large-scale deficit spending in time of recession and their aftermaths. In effect, governments said to the industrial and commercial corporations, don't panic and sell off your inventories of commodities at lower prices. The banks were told that "the Fed" would increase their reserves and if necessary bail them out. The government said to the banks don't press your debtor industrial and commercial corporations to pay off their debts by selling off their overproduced inventories at drastically reduced prices like you used to do in the old days. Instead, "roll over" their debts and allow the debtors to pay them off gradually.

The introduction of government-sponsored deposit insurance in the U.S. after the 1929-33 super-crisis made runs on the banks less likely and also encouraged the banks to roll over debts due them rather than demand immediate repayment that would force industrial and commercial corporations to raise cash by slashing prices.

Therefore, deficit spending combined with government-sponsored deposit insurance helped make the early post-World War II recessions (2) less intense than many pre-World War II recessions had been—even leaving aside the special case of the super-crisis of 1929-33. But it also encouraged corporations to hold on to their inventories and instead sell them off gradually at *high prices*. Instead of slashing prices to get rid of overproduced commodities, they simply held down production and employment until the overproduced commodities were liquidated at high prices.

In the "old days," financial panic would force a rapid reduction of inventories—contraction of commodity capital—followed by a rapid recovery as depleted inventories had to be rebuilt when the panic passed. After a sharp but relatively brief crisis, the economy would stage a powerful recovery. Such strong recoveries were no longer seen in the U.S. (or Britain) after World War II.

Dampening the amplitude of the industrial cycle in order to dampen workers' struggles

Conservative pro-business neo-Keynesians believe, not without reason, that milder recessions and weaker recoveries are preferable from the viewpoint of the capitalist class these economists defend, because the reduction of the amplitude of the industrial cycle tends to dampen the struggles of the workers. Before World War II, and especially in pre-Federal Reserve days, when a violent recession occurred that was followed by a strong recovery, U.S. workers would be able to use the strong post-recession rebound in business and consequent sharp rise in hiring to first win back what they had lost during the recession and then use the existing momentum to win additional gains.

The main contradiction of deficit spending

Remember, one of the basic functions of the crisis-depression phase of the industrial cycle is that by lowering commodity prices, the profitability of gold production is increased both absolutely and

relative to other branches of production. During periods of deflationary depression, more of the labor of society is utilized producing money material and less time is spent producing non-monetary commodities.

The increase in the rate of growth of the quantity of money material, combined with the rise in the purchasing power of the existing money material brought on by the fall in prices, makes possible the sudden expansion of the market that ends the depression and ushers in the next period of economic prosperity. Therefore, any temporary success that Keynesian fiscal policies have in reducing the amplitude of the industrial cycle undermines the growth of the market by postponing the needed fall of inflated prices back to—and for a while below—their values. The seeds are thus planted for a return to sharper crises.

After World War II, the general price level continued to creep upward over a series of "dampened" industrial cycles. By the late 1960s, this upward creep of the general price level was destroying the profitability of gold production. A commodity that is not profitable to produce under capitalism will not be produced even if the commodity in question is the money commodity. Therefore, any success in maintaining high prices—without currency devaluation—will undermine the long-term ability of the market to grow. Sooner or later, this must lead to a return of sharper crises.

Fiscal Keynesianism dependent on monetary Keynesianism

At should already be apparent, fiscal Keynesianism is dependent on monetary Keynesianism. Therefore, just as monetary Keynesianism is doomed to fail in the long run, so is fiscal Keynesianism. We have seen that at the peak of the industrial cycle, there is a shortage of loan money and money capital as well as the means of circulation in general. The general money famine, as Engels described it in "Socialism Utopian and Scientific," causes credit to vanish just when it is most needed.

As the industrial cycle peaks, the combined purchasing power of the capitalists and the workers, plus the hangers-on of the capitalists—persons who live off surplus value, including the state—is insufficient to purchase the total mass of commodities at their value that is being produced by the industrial capitalists. At this point in the cycle, any move by the state to increase its expenditures, whether this is financed by current taxes or by borrowing, will reduce the purchasing power of the capitalists and/or the workers.

Once the peak of the cycle has passed, the capitalists and indebted non-capitalist consumers start paying off their debts and rebuilding their cash reserves. As the crisis and depression progresses, this idle mountain of hoarded cash gets larger and larger. The larger the idle cash hoard becomes, the greater the borrowing power of the government. However, if the government engages in massive borrowing "prematurely" before a sufficient idle cash reserve has been accumulated, the crisis will simply break out again after a short interval, and there will be a "double-dip" recession.

Therefore, in order to make sure the recovery when it arrives is "sustainable," the government is under pressure to refrain from too much "premature" deficit spending.

Some economic history

Let's look at the concrete economic history of the 20th century to see how these contradictions worked themselves out in practice.

On the eve of World War I, all economic indicators were pointing toward a serious depression. Prices had been in a strong upswing since 1896, and this rise in prices had by reducing the profitability of gold production all but halted the growth in the production of money material. The stagnation of gold production was a sure sign that prices as expressed in gold were rising above the values of commodities. The gap between the ability of the industrial capitalists to increase production and the ability of the market to grow was, after a period of exceptional growth of the world market, again widening. Indeed, a recession had begun in 1913 in the United States and Europe and was deepening in the summer of 1914.

War economy replaces depression

The war economy with its massive deficit spending quickly liquidated this developing depression. The depression was replaced by a war economy. While tens of thousands of workers in uniform died in the trenches, the problem of unemployment vanished. Industries converted to war production and the unemployed who were not absorbed into the military were largely shifted to war production. The reserve industrial army of the unemployed gave way to the literal armies. Instead of facing the hardships of unemployment, the workers were slaughtering each other in the trenches. After the war, Keynes claimed that the success of the war economy in eliminating the developing

unemployment crisis proved that deficit spending could solve the problem of unemployment in peacetime as well.

Contradictions of war economy

The war disrupted the entire process of capitalist expanded reproduction. In some countries, such as Germany, an acute shortage of raw material caused production to decline sharply—much more than it had as a result of any pre-war crisis—even if there was no unemployment. Industrial capitalists found a shortage of elements of constant capital, not only of raw and auxiliary materials but of new machines.

Instead of replacing and expanding their real capital, the world's industrial capitalists were replacing their real capital with fictitious capital in the form of government bonds. Much of the potential variable part of this real capital—sold labor power—was perishing in the trenches. The capitalists did not expect the war to last "too long." As the war began in August 1914, the slogan was that the boys would be home "before the leaves fall."

The capitalists in the warring nations hoped the victory of their own countries would mean that their government bonds would be repaid in good money—at the expense of the defeated countries. The capitalists in the losing capitalist countries—such as Germany and Austria—indeed saw the value of their government bonds largely or completely wiped out due to the postwar inflation, while the purchasers of war bonds in the victorious countries, especially the U.S., were enriched.

The mass destruction of real capital meant that instead of overproduction the war economy brought acute shortages of commodities. Commodity prices therefore soared not only in terms of depreciated paper currencies but in terms of actual money material—gold bullion. This had two effects. It greatly reduced the purchasing power of the world supply of existing gold bullion while greatly reducing the profitability of the world's gold mines. Gold production already stagnating on the eve of the war slumped sharply as prices soared during, and for a while after, the war.

World War I, therefore, created a huge, and up to the present historically unmatched, gap between the prices and the values of commodities. Commodity prices, which were already dangerously inflated on the eve of the war, more than doubled. This huge gap between prices and values could never have been "achieved" in a peacetime economy, since a crisis of overproduction would have inevitably intervened well before such a wide gap between prices and values developed.

Once the war was over, therefore, the gap between the ability of the industrial capitalists to increase production and the ability of the market to grow dramatically widened due to a drop in both the purchasing power and production of money material. As long as the war continued, however, the ability to produce commodities was not increasing as under normal capitalist expanded production; it was declining. Therefore, the greatly reduced ability of the market to grow was not a problem as the war raged.

In 1920, in order to avoid hyperinflation, governments and central banks—with the exception of defeated Germany—adopted sharply deflationary polices that brought inflation to a screeching halt. (3) This caused a sharp drop in prices and a sharp if brief recession in production and employment. However, since there was little real overproduction—world industrial production was no higher in 1920 than it had been in 1913, which marked the peak of the last pre-World War I economic boom—the world capitalist economy ran out of inventories well before prices had fallen enough to restore even the already inadequate pre-war level of gold production. Though the deflation of 1920-21 halted its sharp decline, gold production remained well below the already inadequate level that had prevailed in 1913. (4)

As result of the reduced purchasing power of gold compared to 1913 due to the still high price level, combined with the low level of gold production, when the world economy did begin to recover from the war destruction and the brief postwar recession of 1920-21, there were far fewer reserves of idle cash than usual to finance a recovery. Therefore, the economy had to depend on credit to an unusual extent. When the resulting credit bubble and associated swindling began to collapse starting in 1929, it led to a massive debt deflation that transformed the cyclical U.S.-centered recession that began in 1929 into the super-crisis of 1929-33, which ushered in the Great Depression.

Therefore, contrary to Keynes, the war economy with the huge deficit spending of 1914-1918 did after all *not* prevent the depression and associated unemployment crisis that was developing in the 1910s. It merely postponed the depression and unemployment by 15 years in the United States. Less-favored European countries began to experience a grave unemployment crisis as soon as inflation was halted—in 1920 in Britain and 1923 in Germany. What would have been a more or less

19th-century-type depression during the 1910s was transformed into the Depression with a capital "D" of the 1930s with all its grave consequences.

Did World War II bring prosperity?

But Keynesians and Keynesian Marxists argue that World War II with its even more massive deficit spending—and destruction and death—finally ended the Depression and brought a return to prosperity. In fact, the condition of the world economy and the world market were virtually the opposite of those that prevailed on the eve of the World War I.

World II broke out after an economic crisis and resulting Depression had occurred that was qualitatively worse then any other crisis-depression in the entire history of capitalism. The huge gap that World War I had caused between prices and values was finally reversed by the super-crisis of 1929-33.

The plunging prices brought about by the Depression increased the purchasing power of gold and the profitability of gold production causing gold production to rise to the highest level in history up to that time. This combined with the lingering Depression, reinforced by the 1937-38 recession, kept investment at very low levels throughout the Depression decade, leading to the building up of by far the largest idle cash hoard—centered in the United States—that the world had ever seen. Economic conditions were the exact opposite of the situation that prevailed when World War I broke out.

This unprecedented buildup of idle cash in the banks—especially in the United States—was the "liquidity trap," as the Keynesians call it, of the 1930s. The world market was therefore primed for the greatest "sudden expansion" in its history. None of this owed anything to either World War II, which was yet to occur, or the "Keynesian revolution" in economic policy except to the extent that the deficit-financed World War I war economy made the Depression with a capital "D" possible in the first place.

Indeed, an examination of economic data shows that the U.S. economy was entering a strong upswing on the eve of World War II, the exact opposite of the situation that prevailed on the eve of World War I when the U.S. economy was sinking into depression. This fact is somewhat obscured by the artificially induced Roosevelt recession of 1937-38 that managed to prolong the Depression by several years. (5) However, the Roosevelt recession had been over for more than a year when war broke out in Europe on September 1, 1939.

Therefore, World War II replaced what would have been a strong rebound from the Great Depression disaster—largely caused by the aftermath of the World War I war economy—with a new war economy. True, this war economy reduced unemployment much faster than any "peacetime" economic boom would have—though at the price of killing off the newly "employed" workers in uniform by the millions. The most destructive war in history also made possible the reconstruction boom in Europe and Japan after the war, which would not have occurred if "peace" had broken out at the end of the 1930s instead of war.

In other ways, however, the war economy actually limited the postwar boom. Like in World War I, rising prices in terms of gold reduced the purchasing power of money material and discouraged gold production. The 1941 level of gold production was not to be exceeded before the late 1950s, though gold production remained above pre-Depression levels.

As was the case in the World War I war economy, overproduction was suppressed during the war. For example, in the U.S., the country least affected by the war economy, automobile production was suspended completely during the war as the auto factories shifted to the production of tanks and warplanes. Naturally, there was no question of an overproduction of automobiles when the war ended.

But there was still a price to pay for the war. Instead of entering the postwar boom with prices well below the values of commodities—which was the case on the eve of the war—the world capitalist economy entered the postwar boom with prices more or less equal to values. This was still far better than the unprecedented inflation of prices over values that existed after World War I, but it was far worse than the situation that would have prevailed if the war had been avoided. The war, however, did not completely cancel out the forces that were working in the direction of a massive expansion of the post-Depression economy.

In the immediate aftermath of the war, the economy of the U.S.—which had most of the world's gold reserves—emerged from the war with a greatly increased (federal) government debt but with virtually no business or consumer debt. The U.S still possessed a massive hoard of idle cash that was available for investing and loaning to Europe and Japan once the war ended. Unlike after World War I, the conditions that had been put in place for a "sudden expansion of the market" still existed

even though they were weakened by the wartime price inflation and its negative effects on the purchasing power of money and gold production.

Overall, if the war had been avoided the strong upswing in gold production that was still climbing in 1941 would have continued for a while, while prices would have been much lower relative to labor values at the start of the boom. This would have meant that the production of money material would have been higher in the early stages of the boom. In addition to a higher level of production, the money material would have had a higher purchasing power without the World War II inflation. Working in the opposite direction, there would have been no postwar reconstruction boom, though there still would have been a need for a massive replacement and renewal of capital run down during the Depression decade.

On balance, it seems likely that economic growth over time would have been greater if World War II had been avoided. Just like World War I had not been able to prevent the depression that was developing in the 1910s but merely postponed it for 15 years and turned it into the Depression with a capital "D", World War II merely replaced the post-Depression boom due in the 1940s with a war economy followed by a reconstruction boom. After that, the "peacetime" boom that was due for the 1940s and 1950s was moved to the 1950s and 1960s.

The duration of the boom and the amount of wealth that was actually created by the post-World War II boom net the destruction that occurred during the war—not to speak of the loss of human lives—was, however, on balance almost certainly reduced by World War II and not increased by it.

None of this prevented the Keynesian economists from taking credit for the post-World War II boom. Economic textbooks written after the war explained that depressions were something that "used to occur" but were now a thing of the past due to the success of Keynesian "stabilization policies."

Unfortunately, many, perhaps most, Marxists—and not only those of the Monthly Review School—echoed these arguments, claiming that the high level of expenditures on arms was responsible for the postwar prosperity. This implied that the workers actually had an interest in war economy—within certain limits—since the alternative would have been a return of the mass unemployment of the Depression years. In the early postwar years, the Depression was still a vivid memory.

Keynes replaces Marx in the post-World War II workers' movement

The reformists in the workers' movement openly replaced Marx with Keynes. Many Marxists honestly confusing Keynesianism with Marxism—especially the argument that war and massive military spending brings prosperity—also often repeated Keynesian arguments without realizing they were in effect advocating Keynes not Marx. What we saw was a major penetration of bourgeois ideology into the workers' movement where Keynesian economics increasingly replaced Marxist economics. This helped pave the way for the disasters that were to occur in the final years of the 20th century.

While Keynes agreed with Marx against the original marginalists that capitalism left to its own devices was a very unstable system prone to deep depressions—which makes Keynes sound very radical—he also held in contradiction to Marx that correct government policies could bring permanent economic prosperity with "near to full employment" within the framework of capitalism.

Therefore, like the non-Marxist progressives, "Keynesianized" Marxists—or Marxists who confused Keynesian economics with Marxist economics—were disarmed when acute economic crises returned in somewhat different forms in the 1970s and early 1980s. A now throughly Keynesianized left was thus thrown back when Keynesian economics was discredited in practice during the 1970s and early 1980s. The followers of Milton Friedman took the initiative and global politics shifted sharply to the right.

Coming up

I had originally planned to end this series on Keynes by examining how the workers' movement can fight the current unemployment crisis, which shows no signs of ending. However, I have decided to postpone this to the following month in the light of *Monthly Review*'s decision to publish two of the letters written by Paul Baran and Paul Sweezy when they were working on "Monopoly Capital" a half century ago.

Over the next month, I urge all readers of this blog to read these letters, which are now available free online or in printed form in the December 2010 edition of Monthly Review. The editors of Monthly Review must be commended for publishing these letters, which shed much light on the development of economic thought during the 20th century. These two letters will be the subject of next month's reply.

Are Marx and Keynes Compatible? Pt 6

In its December 2010 edition, *Monthly Review* published two letters by Paul Baran and Paul Sweezy to one another. One, dated May 2, 1960, by Baran deals with "the economic surplus" and its relationship to Marx's surplus value. The other letter is by Sweezy to Baran dated September 25, 1962. In his letter to Baran, Sweezy has some very interesting things to say about the work of John Maynard Keynes and about monopoly and economic stagnation. This week, I will examine Baran's letter to Sweezy, and next week I will deal with Sweezy's letter to Baran.

Baran's surplus

In "Monopoly Capital," Marx's category of surplus value was replaced by what Baran and Sweezy called the "the economic surplus." Ever since "Monopoly Capital" was first published in 1966, there has been much confusion over whether "the surplus" is simply another term for surplus value or something else. If "the surplus" is simply another term for surplus value, what is gained by renaming the most important economic category in all of economics? If "the surplus" is something other than surplus value, what exactly is its relationship to surplus value?

Baran's 1960 letter to Sweezy sheds some light on the question of "the surplus" and how it relates to surplus value. In his letter to Sweezy, Baran writes that the "surplus" was indeed something more than simply another name for surplus value, though he admitted he was having difficulty defining exactly what "the surplus" actually is. "We want to show," Baran wrote, "that the sum total of profits, interest, rents + (and this is crucial!) swollen costs of distribution + advertising expenses + PR + legal departments + fins and chrome + *faux frais* [incidental operating expenditures] of product variation and model changes = economic surplus, and that this economic surplus increases both in absolute and relative terms under monopoly capitalism."

But Baran then admits that he was having trouble defining "the economic surplus" in a precise way. "What it does hinge on, however," Baran wrote to Sweezy, "is what you have called 'vision' combined with conceptual clarity. I think we have the former but I am having a *dog's time now with the latter* [emphasis added—SW]."

The problem is, in my view, that Baran was mixing up different ideas under the catch-all concept of the "the economic surplus." The result was "vision" without "conceptual clarity."

One of the beauties of Marx's concept of surplus value is the very specific definition that Marx provided. Surplus value is the (abstract) labor that the working class performs free of charge for the capitalists and other exploiters that becomes embodied in commodities and therefore forms part of their value. Marx showed that even if commodities sell at their values—direct prices—including the commodity labor power, or what comes to exactly the same thing, if there is no violation of the principle of the exchange of equal quantities of labor for equal quantities of labor, the workers are still forced to perform unpaid labor for the capitalists. It is this unpaid labor that the working class performs that enables one sector of society—the capitalists—to not only live without working but to grow continuously richer.

Paul Baran

Baran was born in 1910—100 years ago as of last year and the same year as Paul Sweezy was born—in the Ukraine to a middle-class family of Polish Jews. His father was a medical doctor who was a supporter of the moderate wing of the Russian Social Democracy—the Mensheviks. When Baran was born, the Ukraine was part of the vast empire of the Czars, but it would not be for much longer. After the upheavals of World War I and the Russian Revolution, the family settled in Germany, though later during the 1920s they moved back to what was by then the Soviet Union.

Baran grew up and was educated largely in Germany. However, between 1926 and 1928 Baran studied at the Plekhanov Institute in the Soviet Union. These were the years of an increasingly bitter—and increasingly vicious—struggle that was going on within the ruling Communist Party between the supporters of Stalin on one side and Trotsky on the other.

During this factional intra-party struggle, some very important questions for Marxist theory that had been raised by the Russian Revolution and its unexpected outcome were debated. (1) Among them was, what were the prospects for constructing a socialist economy and society within the Soviet Union as long as it remained an isolated socialist state? (2) In the 1920s, the Soviet Union combined a low level of industrial development and consequently a relatively small industrial working class, a large peasantry—the overwhelming majority of the people who lived in the multinational Soviet Union—along with a huge geographical area and considerable natural resources.

During his years in the Soviet Union, Baran was influenced by the Soviet economist Eygenii Preobrazhensky (1886-1937). In the factional struggle that was then raging within the ruling Communist Party of the Soviet Union, Preobrazhensky supported Trotsky. However, Preobrazhensky became fascinated by the possibilities of carrying out what he called "primitive socialist accumulation" within the Soviet Union. By primitive socialist accumulation, Preobrazhensky was making an analogy with the development of early capitalism, before capitalist production proper based on "free wage labor" was consolidated.

The period of primitive capitalist accumulation extended from the 16th to the 18th centuries. During its formative period, the emerging capitalist class relied on force that sometimes reached the level of full-scale genocide to establish the capitalist mode of production. This force was used to accomplish two tasks, both vital to the creation of capitalist production: One of these was to separate the producers—mostly peasants but also urban artisans—from their means of production. Contrary to capitalist mythology, this was far from a peaceful process.

Intertwined with this process was the mass kidnapping and enslavement of people from Africa. (3) In the long run, as capitalism became consolidated the descendants of the enslaved Africans who were separated from their means of production in Africa by the most extreme force possible became "free" wage laborers. However, the conversion of the African slaves into "free" wage laborers was not accomplished by peaceful means either. In the U.S., for example, the conversion of enslaved Africans into wage laborers required in addition to repeated slave revolts, a bloody civil war in which more than 600,000 Americans were killed.

The other major task of primitive capitalist accumulation was to carry out an initial accumulation of money. Today, an aspiring capitalist has to accumulate by whatever means—save, steal or borrow—an initial sum of money—often called seed money—before he or she can launch a business.

What is true of an individual aspiring capitalist today was true of the capitalist system as a whole during the phase of primitive capitalist accumulation. Not only did considerable sums of money capital have to be concentrated in the hands of the first capitalist entrepreneurs, but a vast expansion of the market was needed if large-scale capitalist enterprises were to be profitable.

The necessary expansion in the quantity of money necessary to launch the capitalist system and establish the beginnings of the world market involved first the destruction of the societies of the native peoples of the Americas, accompanied by their enslavement and entombment as Marx put in "Capital" in the gold and silver mines. It was these mines—using mostly slave labor, not "free" wage labor—that produced the "seed money" that was necessary to launch the capitalist system.

By way of analogy, Preobrazhensky described "primitive socialist accumulation" as the initial phase of socialist construction that is carried out in an isolated socialist state—the Soviet Union—whose industrial development lagged far behind the most advanced capitalist countries. Preobrazhensky held that the Soviet state would have to "exploit" the peasantry if it were to successfully carry through the process of "primitive socialist accumulation."

By exploitation, Preobrazhensky meant that the peasantry would have to perform a greater quantity of labor than it would receive in return in the form of the products produced by the socialist enterprises of the Soviet Union. Since the peasantry formed the overwhelming majority of the Soviet population at this time, Preobrazhensky's use of the phrase "the exploitation of the peasantry" was extremely unpopular and was used by his—and Trotsky's—opponents to achieve the defeat of Trotsky and the victory of the Stalin forces.

Preobrazhensky contrasted primitive socialist accumulation with socialist accumulation proper, which would take as its starting point the level of productive forces reached by the most advanced capitalism. Therefore, while Preobrazhensky supported Trotsky against Stalin (and Bukharin), he did so from his own special viewpoint.

Preobrazhensky emphasized the possibilities of primitive socialist accumulation in the Soviet Union, while Trotsky saw no possible way out of the contradictions of building a socialist society in the Soviet Union except through the victory of worldwide socialist revolution. If the world working class was not victorious in the coming historical period, Trotsky warned, the restoration of capitalism in the Soviet Union was inevitable.

When, starting in 1928, the Stalin leadership moved dramatically toward vastly accelerated socialist industrialization by launching the first five-year plan, Preobrazhensky broke with Trotsky and attempted to work with Stalin and his supporters to build up a socialist economy in the Soviet Union. It ended badly for Preobrazhensky, who was eventually arrested and finally executed on

trumped up charges during the Stalin-led purges in 1937. However, unlike many other "old Bolsheviks" Preobrazhensky refused to confess to his nonexistent crimes.

Preobrazhensky on the plan versus the market

In his book "The New Economics," Preobrazhensky explained that the 1920s-era Soviet Union had a mixed economy. The economy included large state-owned socialist enterprises; small-scale peasant simple commodity production, with the strongest peasants tending to become capitalist farmers (4); some concessions owned by foreign capitalist corporations; and small-scale urban capitalist production.

Therefore, the Soviet Union in the 1920s combined elements of both a planned and a market economy. Preobrazhensky pointed out that to the extent the planning principle replaced the market, commodity production and its specific economic laws—in particular, the law of value—would be abolished.

Remember, Marx described commodity production as a phase in the history of production where the producers work for their own private account independently of one another. The only way the producers can validate their individual private labors as a fraction of the total social labor is through exchange. Or, what comes to exactly the same thing, by selling their products as commodities on the market.

According to Preobrazhensky, the Soviet Union had to mobilize its "economic surplus" in order to achieve industrialization. But since Soviet industrialization took place in the context of a planned economy where the workers collectively owned the means of production through their state, the "surplus" here did not represent the same relationship of production as the "surplus product" of a society that is ruled by a ruling class of non-workers. (5)

In contrast, in all class societies, including capitalism, the direct producers, whether through direct slavery, serfdom and other forms of peonage, or as "free" wage laborers, are forced to work part of the working day free of charge for an exploiting ruling class of non-workers. This surplus labor that produces the surplus product enables the members of the ruling class to live without working.

Under capitalism, unlike earlier forms of class society where only some products took the form of commodities, virtually all products take the form of commodities, and consequently surplus product takes the form of surplus value. However, as long as we are dealing with a capitalist economy, whether the capitalist economies of the imperialist countries or the capitalist economies of the nationally oppressed capitalist countries, not only does the "economic surplus" remain a surplus product, the surplus product takes the specific form of surplus value.

In 1928, aware of the deteriorating political climate in the USSR, Baran left the Soviet Union and returned to Germany. (6) Unlike many other intellectuals who had supported socialism and the Russian Revolution in their youth but then turned against the Soviet Union and often repudiated socialist ideas altogether in reaction to the political terror that peaked in the Soviet Union during the 1930s, Baran did not reject either socialist ideas, the Russian Revolution, or the Soviet Union.

However, in the years that followed, Baran was obliged to observe Soviet industrialization mostly from afar—though he briefly returned to the Soviet Union in the early 1930s after he was forced to leave Germany following Hitler's coming to power in January 1933. By then, however, the political climate in the USSR had worsened considerably compared to even 1928, so Baran moved to Poland and then in 1939 to the United States. If he had stayed in Poland, Baran due to his Jewish ancestry would have faced virtually certain death at the hands of the Nazis.

In 1951, Baran managed to obtain a tenured economic professorship at Stanford University in California. Until his death in 1964, Baran was the only tenured Marxist professor of economics in the entire United States. Stanford's willingness to hire Baran stands in contrast to Harvard's—considered America's leading university—refusal to give Paul Sweezy a tenured position in its economics department despite the urgings of none other than Joseph Schumpeter. The refusal of U.S. universities to hire Marxists before the 1960s, with the sole exception of Baran, helps to explain the desert that passes for professional economics in the U.S. today.

Because of his tenure, Baran was able to hang on to his academic post through the worst of the McCarthyite witch hunt, until his premature death of a heart attack in 1964, two years before "Monopoly Capital" was published.

Perhaps because of his experiences in the Soviet Union, Baran was fascinated with the possibilities of development, or lack thereof, of the capitalist countries of the "Third World." In 1957, he published the "Political Economy of Growth." He noted that the oppressed capitalist countries—or

countries that were struggling to emerge from pre-capitalist relationships—had huge potential "surpluses" that could be used for economic development if the "surpluses" were utilized in a rational way. However, under capitalist neocolonial regimes, the economic surplus was being squandered.

This partially took the form of unused capacity—plant that was lying idle due to a lack of effective monetary demand, or in Marxist terms, because the increased surplus value that would be produced if the productive capacity that already existed was fully utilized could not be realized in money form—that is, as profit.

But that was not the whole story. The part of the surplus value that was realized was largely squandered thorough the wasteful consumption of the capitalists, the landowners and their "middle-class hangers-on." The labor of the working class could have been used in producing new means of production, which could have been utilized to overcome "underdevelopment." Instead it was largely wasted in producing luxuries for the ruling classes and their middle-class allies.

Applying the concept of 'the economic surplus' to U.S. monopoly capitalism

In the late 1950s and early 1960s as Baran worked on "Monopoly Capital" with Paul Sweezy, both Baran and Sweezy came to believe that the concept of the "economic surplus" could be applied to the very different society of the United States and its powerful highly industrialized—deindustrialization still lay in the future—but already decaying monopoly capitalist economy. Baran raised the question of the production of consumer goods and the vast advertising expenditures and other methods that the monopoly capitalist corporations use to create demand for the often harmful commodities that they produce.

Adam Smith had explained how "the invisible hand"—the law of value—distributes the total quantity of labor available to society among the various branches of industry in such a way that society produces what it needs and wants even though every producer is working only for his own private account. Neoclassical marginalist economics has vulgarized Smith's insights to the extreme. Today's (bourgeois) economists talk about "consumer sovereignty," ignoring the fact that the monopoly capitalist producers employ their vast financial resources to *create* demand for the particular products they produce.

Among these vulgarizers was John Maynard Keynes of the "General Theory." "I see," Keynes wrote in Chapter 24 of the "General Theory," "no reason to suppose that the existing system seriously misemploys the factors of production which are in use." In "Monopoly Capital," Baran and Sweezy demonstrated that this is far from the truth, even if we ignore the problem of vast squandering of society's labor on militarism. Powerful monopolist corporations create demand for the products they produce through massive advertising. Whether on billboards, in newspapers, on radio and TV or now on the Internet, a significant total of society's labor is spent on advertisements explaining the alleged virtues of the products produced—or sold—by the monopolists.

The "neoclassical" economists build complex mathematical models that assume each economic "agent"—consumer—has "perfect information." But this is, of course, nonsense. Some advertisements brazenly boast about "our secret recipe." Since the recipe is secret, how are consumers supposed to have the "perfect information" necessary to objectively judge the product as a material use value? Already in his day, Marx observed that the (bourgeois) economists were assuming that all consumers have an encyclopedic knowledge of the world of commodities.

This was not true in Marx's day and is far less true in our day or even when Baran and Sweezy wrote "Monopoly Capital" a half a century ago. How many of us can really objectively judge the quality of different smart phones, tablet computers or computerized automobiles, for example. If we have sufficient money or credit, we tend to buy "brand names" that have built up a reputation for being of high quality. This reputation enables the corporations that market these products to sell them at prices that are above the price of production—at monopoly prices.

If we are unusually knowledgeable about a particular type of commodity—but more likely because we lack money and credit to buy "brand name" products—we sometimes buy so-called "no-name products" that often sell for far less than the brand names. Sometimes we find out that the no-name products are as good or even on occasion better than brand-named products sold at much higher prices. But at other times, the cheap product falls apart almost at once. You never know. You as a "sovereign consumer" lack the information to exercise your alleged "sovereignty."

The case of the automobile

The manipulation of consumer demand does not stop at advertising. Fifty years ago when Baran and Sweezy were working on what would become "Monopoly Capital," automobile technology was on a

plateau. The automobile centered on the internal combustion engine had been developed during the first half of the 20th century and had reached a certain perfection. Real improvements such as the application of computer technology to automobiles and in recent years the increasingly urgent need to replace the internal combustion engine with the electric motor still lay well in the future.

Yet in those days, the automobile manufactures every year—as they still do—with great fanfare announced the new models—the new 1957 Chevy, Ford or Buick that you just had to buy. Most notoriously in the late 1950s the automobile monopolists built cars with huge tail fins—attempting to invoke in the minds of the buyers space rockets or jet planes—you occasionally see them on antique cars today. Then a few years later the tail fins disappeared never to return. Still, Detroit continued to announce its yearly "new models" with little more change than slight changes in the chrome trim. Auto buyers were then urged to replace their "out of date" cars with the new cars that were "improved" only because they had fins—or the fins had been removed—or the chrome designs on the car were slightly different than last year's "must have" model. This phenomena was even given a name—"planned obsolescence."

Not free to choose

But the automobile companies didn't stop with their massive and often deceptive advertising campaigns and their minor style changes. Automobile companies and the oil companies (7) that stand behind them used their vast political power to force working-class and middle-class consumers to buy their products. The oil-automobile complex virtually destroyed public transportation in the U.S., while great amounts of the taxpayers' money were poured into the construction of highways. With little public transportation available but an increasing network of freeways, many people in the U.S. were—and are—*forced* to buy automobiles simply to get to work.

Therefore, neoclassical economists notwithstanding, a good deal more than the choices of the "sovereign consumer" was involved in the rise of the American automobile industry. When it comes to the need to buy a car, the American consumer is most certainly *not* free to choose.

Today we are learning that cars built around the internal combustion engine are among the most harmful material use values ever produced by human labor. Not only have untold thousands been killed and many more maimed in auto accidents over the years, but the internal combustion engines were and are pumping huge amounts of carbon dioxide into the atmosphere leading to today's global warming crisis.

This blog has only dealt with these questions in a passing way. The reason is that I am not attempting to put forward a rounded critique of political economy but rather focus on the question of the periodic crises of overproduction that affect capitalism.

This, however, in no way diminishes the importance of the questions raised by Baran and Sweezy a half century ago in "Monopoly Capital" and other writings. Their urgency has only increased over the decades in ways that could not have been foreseen by Baran and Sweezy back in the 1950s and 1960s.

However, I believe that in analyzing these extremely important phenomena that have now reached such monstrous proportions that the continued existence of life on this planet could be brought into question, we should not abandon Marx's concept of surplus value as the central category of the economics of capitalist society. True, we have to be careful to respect the historical limits of the concept of surplus value. It must not be used in a supra-historical way.

If we are dealing with other problems such as socialist construction, we should not use the term "surplus value" to refer to the part of the product that is appropriated by the ruling working class collectively rather than individually. Especially in socialist states that are building socialism under unfavorable conditions, the opponents of socialist construction have often attempted to appeal to the working class by claiming that the workers are being "exploited" or even that more "surplus value" is being extracted from them than under capitalism.

Even a situation where a large percentage of the product produced by the working class goes into their collective consumption in the form of socialist industrialization is not the same thing as the appropriation of a large part of the product produced by the working class by a class of non-workers. (8)

However, when we are analyzing capitalism in all its stages, including the phase of monopoly capitalism, the category of surplus value in my opinion remains central. Baran mixed different things together. He consequently achieved vision, as he himself put it, but not clarity. To complete Baran's work, we must add clarity to his vision.

Baran mixed together (1) the exploitation of the working class by the capitalist class—surplus value—with (2) the production of commodities with trivial or harmful use values, advertising, minor changes in design that represent no real gain in use value of a particular type of commodity for the sole purpose of selling greater quantities of commodities, and salesmanship, and (3) the difference between what is produced under capitalism and the possibilities that are offered if capitalist exploitation was replaced by socialist construction. All these are important questions worth examining in their own right, but they should not be lumped under the catch-all term "economic surplus."

There is another problem with the Baran and Sweezy analysis of "the surplus." That is their belief that "the surplus"—which Sweezy at least used more or less synonymously with surplus value despite Baran's attempts to give it a broader meaning—is increased under monopoly capitalism by the monopolies' alleged ability to charge prices that are more and more above the labor values of commodities, creating profits—or economic surplus—upon alienation.

"Out of…surplus value," Baran wrote in his 1960 letter to Sweezy, referring to competitive capitalism, "the capitalist gets his profits, the banker his percentage, the landlords their rents, and the merchants (part of) their commercial gains. (The other part constituting productive services comes out of the costs proper and still another part based on milking v [variable capital or wage] recipients is '*profit by alienation*' [emphasis added—SW] and constitutes a net addendum to surplus value.)"

Here Baran is defining the economic surplus not as another name for surplus value but as surplus value plus an additional "profit by alienation." Baran apparently believed that the industrial capitalists sold their commodities more or less at their values to the merchants, who then added an additional profit upon alienation to the prices of the commodities when they sold them to the ultimate consumers. While Baran saw this as a minor phenomena under "competitive capitalism," he believed it expanded greatly under monopoly capitalism, justifying the replacement of Marx's "surplus value" with the new category of the "economic surplus."

This brings us to the whole question of the relationship between value and price. I will continue this next week when I examine Sweezy's 1962 letter to Baran.

Are Marx and Keynes Compatible? Pt 7

Last week, I examined the letter Baran sent to Sweezy in 1960 that dealt with the concept of the "economic surplus." Over the next two weeks, I will examine the letter Sweezy sent to Baran dated September 25, 1962, which deals with monopoly, capitalist stagnation and Keynes.

Sweezy and stagnation

Sweezy described himself as a "stagnationist." In his mature writings, he came to believe that the "default" condition of monopoly capitalism is a state of "stagnation." But what exactly did Sweezy mean by "stagnation"? To understand what he meant, we have to understand the traditional marginalism that formed the starting point of Sweezy's economic studies.

Marginalist, or "neoclassical," economics claims that a capitalist economy has a strong tendency toward full employment of both the means of production and workers. Remember, the marginalists hold that, assuming there are no unions or social legislation, the capitalist economy will have as its normal condition a situation of full employment of both the means of production and workers.

When Sweezy began his economic studies at Harvard before both the New Deal and the rise of the CIO (Congress of Industrial Organizations), there was virtually no social legislation or social insurance of any kind in the United States. The union movement was very weak and, outside of mining, in basic large-scale industries was virtually nonexistent.

Therefore, according to marginalist theory the U.S. economy should have been very close to a situation of full employment of both the means of production and the workers. But in the early 1930s as Sweezy was studying economics at Harvard, the U.S. was facing an extreme crisis of mass unemployment. Clearly, there was something very wrong with the economics that Sweezy was learning.

Ricardo and unemployment

The (bourgeois) economists had not always claimed that under capitalism there would be a full employment of workers. Before the "marginalist revolution" of the last part of the 19th century, the economists had taken for granted that besides the employed workers there would always be what was called a "surplus population." Ricardo, accepting both Say's Law and Malthus's so-called law of population, had assumed a full employment of the means of production but not of the workers.

Indeed, according to the Malthusian theory of population if wages rose much above biological subsistence levels, the working-class population would rise. Therefore, Ricardo reasoned, if there was full employment of workers, wages would rise above the "value of labor." (1)

Ricardo, remember, made no distinction between labor and labor power. The rise of wages above biological subsistence—or "value of labor"—would lead to a considerable growth of the number of workers seeking employment. Inevitably, a surplus of workers would develop as the working-class population grew in response to wages that were above the biological subsistence level, driving the price of labor—wages—below the value of labor once again.

Once wages fell below the value of labor, the working-class population would inevitably contract, repeating the cycle. In this way, fluctuations in the size of the surplus population would keep the price of labor tied to the value of labor in the long run.

Therefore, Ricardo, unlike his marginalist successors, assumed the full employment of the means of production but not of the workers. According to Ricardian theory, if a situation of the full employment of workers persisted, the rise in the price above the value of labor would undermine capitalist profit, since according to Ricardo the more wages rise the more the rate of profit falls. (2)

Since Ricardo realized that profit was the driving force of capitalist production, the surplus population provided by the Malthusian law of population was within Ricardian theory an absolute necessity for capitalist production. Only with the late 19th-century "marginalist revolution" did the economists begin to claim that capitalism tended toward a full employment not only of the means of production but of workers as well.

Marx, much like the classical economists before him, generally assumed that even if there was full employment of the means of production, there would still be a surplus population, which Marx called the reserve industrial army of the unemployed. Sweezy made note of this in his 1962 letter to Baran.

Marx in order to distance himself from Malthus's alleged law of population used the term *relative* surplus population as opposed to the Malthusian absolute surplus population. But Marx in various

places in his writings indicated that even outside of crises, the normal condition of the capitalist economy includes not only a reserve army of unemployed workers but also idle means of production.

That is, the *normal* condition under capitalism is a surplus of both means of production on one side and unemployed workers on the other. The capitalist economy rarely, if ever—especially if we leave aside the special case of an all-out war economy—utilizes all available means of production even during periods of economic boom. And Marx pointed out that when the capitalist economy comes close to a full utilization of available means of production—leaving aside the case of an all-out war economy (which Marx did not analyze)—it indicates that a crisis is not far off.

Sweezy's definition of stagnation

Sweezy defined stagnation as a lack of full utilization of the means of production plus the additional unemployment of workers, with the latter caused by the former. However, Sweezy as is clear from his 1962 letter to Baran—and elsewhere—indicated that he could not understand why there would not be a full utilization of the means of production in a capitalist economy as long as *free competition* prevailed.

In his 1942 book, "The Theory of Capitalist Development," Sweezy expressed surprise that Marx wrote about the lack of full employment of factories and machinery back in his day, before the transformation of the "competitive" capitalism of the 19th century into monopoly capitalism.

Elsewhere, however, Sweezy seemed to forget that Marx considered a less than full utilization of the means of production a normal condition of *competitive* pre-monopoly capitalism. After all, hadn't the "neoclassical" economists provided elegant mathematical proof that assuming "perfect competition" such as presumably prevailed during the first three-quarters of the 19th century there should be a full utilization of the means of production as well as full employment of workers?

Even after he had studied Marx later in the 1930s, Sweezy still couldn't understand what was wrong with the marginalist arguments *if* "free competition" prevailed.

Bourgeois business cycle theory and marginalism

Well before the so-called Keynesian revolution of the 1930s, bourgeois economists empirically studied and described the various phases of the business cycle. Interestingly enough, the economists who carried out these valuable empirical investigations, such as Wesley Mitchell (1874-1948), were not themselves neo-classical marginalists but supporters of the institutional school of economics. The institutional economists had little or no interest in value theory, whether marginalist or Marxist.

It is no accident that studies of the business cycle were carried out by non-marginalist economists. The pioneers of marginalism had virtually nothing to say about the industrial or business cycle, since the logic of marginalist value theory is that capitalist crises of overproduction are impossible and there should therefore be no such thing as the "business cycle."

But well before the Depression disaster of the 1930s, it was undeniable that business cycles and crises were occurring in real world capitalism. Therefore, side by side with marginalist theory there arose an empirical study of business cycles and capitalist crises, which was taught to economic students such as the young Paul Sweezy. However, these empirical studies of business cycles and crises were not integrated into and really *could not* be integrated into the marginalist economics that provided and still provides the theoretical backbone of modern (bourgeois) economics.

The reason for this deep-seated incompatibility between marginalism and even empirical studies of the business cycle is the crisis of the general overproduction of commodities that crowns each business cycle. According to marginalism, a crisis of general overproduction of commodities is a theoretical impossibility.

Marginalist value theory maintains that the value of commodities arises from their scarcity as material use values and not the quantity of human labor that is socially necessary to produce them. How then can there possibly be crises of *overproduction* of *scarce* use values?

Therefore, between the marginalist revolution in bourgeois economics that began in the 1870s and the Keynesian revolution of the 1930s, there was already a duality between basic (bourgeois) economic theory—marginalism—on one side and the study of business cycles and crises on the other.

Later, after Keynes, this duality deepened with traditional business cycle theory being absorbed by Keynesian-inspired macroeconomics, while marginalism continued to be taught separately as microeconomics.

"The *continuous* [emphasis Sweezy's] operation of Say's Law is rubbish," Sweezy wrote to Baran. "But this was really quite well known to Keynes's predecessors: after all business cycle and crisis theory had a long and respectable history prior to 1936. What the earlier theorists maintained was that the breakdown couldn't persist indefinitely. Unemployment and unused plant would lead to price (including wage and interest rate) and income changes that would sooner or later (depending on reaction times, mobility of resources, etc.) set the stage for an upswing which, once under way, would carry up to full employment. Except under very special assumptions, the condition of full employment couldn't persist either, of course."

Sweezy's wording is interesting. He does not here seem to completely reject Say's Law, he only rejects the "continuous" operation of this so-called law. Marx, to put it mildly, was considerably harsher in his assessment of Say's Law. Nor does Sweezy completely reject outright that full employment could persist either. He implies that the "condition of full employment" would persist if we make "very special assumptions."

Sweezy does not say exactly what these "very special assumptions" are. It is clear from the context that Sweezy did not believe "full employment" could persist in practice under "competitive" capitalism. But even the "mature Sweezy" of the *Monthly Review* period continued to believe that a competitive capitalist economy would harbor a strong tendency toward "full employment."

Keynes and equilibrium at less than full employment

Keynes, remember, had claimed in the "General Theory" that capitalism could very well achieve an equilibrium—an equality of the rate of interest and the expected rate of profit on new investment—at less than full employment. Soon after the "General Theory" was published, however, Keynes's theory of an equilibrium at less then full employment came under attack by marginalists.

Suppose, the marginalists argued, the economy was in a condition of unemployment of both workers and means of production but there was an equality of interest rates and the (expected) rate of profit. Would such a situation really be an equilibrium? The marginalist critics of the "General Theory" answered no.

According to the marginalists, if there was an excess of means of production combined with unemployed workers, both prices and wages would fall. The only true equilibrium is, after all, a situation where supply equals demand at current prices. Only under these conditions will prices and wages neither rise or fall, or what comes to exactly the same thing, be in equilibrium.

According to the marginalists, in a situation where supply exceeds demand the direction of prices including the "price of labor"—wages—will be downward. Therefore, Keynes's marginalist critics argued, as long as unemployment exists, even if the "monetary authority" leaves the money supply unchanged in nominal terms, the fall in both wages and prices will expand the supply of money in *real terms*. The consequent expansion of the real money supply will in turn lower the rate of interest.

Therefore, as long as there is unemployment of either means of production or workers, prices, wages and interest rates will fall. The rate of interest will only stop falling when prices and wages stop falling. And the marginalists "proved" that this would only occur when full employment of both means of production and workers returned. Therefore, the marginalist critics of Keynes declared, they had again proven mathematically that, Keynes notwithstanding, the only possible true equilibrium of the capitalist economy is full employment of means of production and workers.

Neo-Keynesianism

This gave birth to a more conservative kind of Keynesianism that became known as "neo-keynesianism." The neo-Keynesians argue that the historical experience of the 1930s Depression and lesser episodes of prolonged mass unemployment had proven in practice that capitalism left to its own devices could get stuck in periods of prolonged, though not permanent, mass unemployment. Therefore, if the government let things take their natural course, there was the danger the workers and their allies would turn against capitalism during a prolonged depression. Hence, the neo-Keynesians agreed with Keynes of the "General Theory" that on purely pragmatic grounds the old pre-Keynesnian arguments that any depression would be short-lived if the government stood aside were false.

Therefore, the neo-Keynesians support "Keynesian" policies of deficit spending and monetary expansion during periods of recession or above-average unemployment. They remain haunted by the fear that a recession will get out of hand and turn into a new Depression if the government fails to follow "expansionary" policies. Or as Keynes himself put it about capitalism's alleged long-term tendency toward full employment: "In the long run we are all dead."

As Sweezy's 1962 letter to Baran and other writings as well indicate, Sweezy did not know how to answer these marginalist arguments as long as a *competitive* capitalist economy is assumed. Even in 1962, Sweezy seemed to find convincing the arguments of the marginalists against Keynes's claim that an equilibrium at less than full employment is possible, as long as *free competition is assumed*.

Monopoly

But what happens, Sweezy asked, if monopoly replaces free competition? To the extent monopoly replaces competition, Sweezy held that the tendency toward full employment is replaced by a situation where stagnation and unemployment of a portion of both the means of production as well as workers becomes the new norm. But what did Sweezy really mean by a "monopoly capitalist" economy, and how did such an economy differ from a competitive capitalist economy?

To understand what Sweezy meant by a monopoly capitalist economy and a competitive capitalist economy, we have to again return to the neoclassical marginalist economic theory that formed Sweezy's introduction to economics and thus the starting point of his own economic work.

The marginalists build their theories around the assumption of "perfect competition." They assume that each branch of production consists of many independent firms, each of which controls only an insignificant share of the total production of the given branch of production.

As a result, the production decisions made by the "individual firms" approach to the limit of zero their effect on the total supply of the commodity produced by each branch of production. Since the production decisions of the "individual firm" have almost no effect on the total supply of commodities, they have no effect on prices. Or, as the economists like to put it, the individual firms are "price-takers" not "price makers."

The degree of monopoly

Under these conditions, the marginalists argue, each individual firm will produce at the level where their marginal cost of producing a given type of commodity will equal the price of the commodity. The marginalists then go on to prove that at this point each firm is producing at its optimal level—full employment—and moreover, producing commodities in such proportions that any change in the mix of what is produced will reduce the "total satisfaction" of consumers. This is the essence of what the neoclassical economists call "general equilibrium theory," supposedly the greatest achievement of modern economic science.

But what will happen if a branch of production is divided into only a few producers, where each individual firm controls a considerable percentage of the total production of a given commodity?

Unlike the case with "perfect competition," if we assume "a degree of monopoly," as the economist Michal Kalecki (1899-1970) (3) put it, the individual industrial corporations will exercise a considerable influence on the total supply of the commodity and therefore on its price. Or as the economists like say, in this case the individual "firm" is at least to a degree a price maker and not just a price taker.

Therefore, according to marginalist price theory, in a situation of monopoly where individual firms produce more than a non-trivial percentage of a total commodity of a given use value—or utility in marginalist lingo—the firm will set its production at the level where its marginal costs equal its marginal revenue. As a firm increases its level of production, not only will its marginal (and therefore its average) costs change, but the price it is able to charge for its commodities will also change.

Therefore, according to this extension of marginalist price theory to a situation of monopoly as defined above—which Sweezy himself helped to pioneer in the 1930s—the industrial corporations will find it in their interests to produce at levels that are likely to be well below full employment. In order to maximize their profits, they will tend to leave some of their productive capacity idle and therefore hire fewer workers than they would if they produced at full capacity. This, according to Sweezy and indeed the Monthly Review School, is the "microeconomic" foundation for "macroeconomic" stagnation.

Indeed, all the claims made by marginalist "general equilibrium theory" goes to pieces once the assumption of "perfect competition" is dropped.

Sweezy the marginalist and Sweezy the Marxist

But wasn't Sweezy a Marxist who defended Marx's labor theory of value, which holds that the quantity of labor that is socially necessary to produce a commodity determines its value? And didn't Marxists believe that prices are determined by labor values? Weren't early marginalists such as the

English economist William Stanley Jevons (1835-1882), for example, quite clear that the theory of "marginal utility"—early marginalism—was meant to replace and not supplement the law of labor value of classical political economy? How could Sweezy as a Marxist apply *marginalist theories* to the questions of prices, profit maximization and full employment versus stagnation?

In Marxist theory, the relationship between values and prices is a complex one. According to Marx, through the process of competition, which tends to equalize the rate of profit across the different branches of production with different organic compositions of capital and variable capital turnover periods, values—or direct prices—are transformed into prices of production that inevitably deviate from their direct prices. According to Marx, assuming free competition, market prices will fluctuate according to the changing conditions of supply and demand around the prices of production.

In Volume III of "Capital," Marx presents a partial solution to the "transformation problem" that can only be fully solved by transforming not only the outputs but the inputs as well. Once the transformation of values into prices is complete, so that both input and output prices are consistent, we have a situation where market prices fluctuate around the prices, or "costs," of production that equalize the rate of profit across the various branches of production in such a way that equal capitals yield equal profits in equal periods of time.

Indeed, all the major schools of economics—the classical school, the Marxist school, and the neoclassical marginalists school, as well as the so-called "neo-Ricardian" school—agree on this much. Therefore, Sweezy saw no real contradiction between modern microeconomics—marginalist price theory—and Marxism.

According to Sweezy, while Marxism got to the social essence of things—the exchange of commodities as products of human labor and the exploitation of the working class through the production of surplus value, marginalism provides a powerful and elegant way to analyze prices in a practical way. In Sweezy's mind, this applied both to analyzing prices under competitive capitalism and its extension to analyzing prices under monopoly that Sweezy himself helped develop during the 1930s.

Sweezy on value

In "Monopoly Capital," Sweezy (and Baran) ignored the question of value, employing only a little marginalist price theory. But in the "The Theory of Capitalist Development," first published in 1942, which was largely written in the 1930s, Sweezy devotes considerable attention to Marx's value theory. In analyzing the problem of value in "The Theory," Sweezy got off to a good start when he distinguished between the qualitative and quantitative aspects of value. When the producers work independently of one another for their own account, their individual private labors can only validate themselves as social labor through the process of exchange—the market.

Under these conditions, the products of human labor take the form of commodities, and human labor in the abstract assumes the form of value. Abstract human labor embodied in a commodity is the *quality* or substance of value. Sweezy explains that this should not be confused with the *quantitative* aspect of value. For example, if an orange requires twice the quantity of abstract human labor to produce than an apple, an orange will represent twice the quantity of embodied human labor than the apple does, or what comes to exactly the same thing have twice the value of an apple. This is the quantitative aspect of value.

Next to Marx's theory of surplus value, Sweezy stresses this distinction between abstract and concrete labor—or as Sweezy puts it, between the the qualitative and quantitative aspect—as Marx's greatest contribution to economics. Therefore, Sweezy explained, Marx's theory of value is not simply a restatement of the Ricardian theory of labor value like many Marxists more or less assume, but something that represents a major advance beyond Ricardian value theory.

However, at this point Sweezy breaks off his analysis of value. Having dealt with the quality of value and distinguishing it correctly from the quantity of value, Sweezy assumed in "The Theory" that he had said all that really needed to be said about value.

What Sweezy ignored was another of Marx's key advances beyond Ricardian value theory, the relationship between value and the *form* of value. This was a subject that Marx spent a considerable amount of time on in the first three chapters of "Capital." There Marx developed two primary forms of value, the relative form and the equivalent form. The value of one commodity, the relative form, is measured by the *use* value of another commodity, the equivalent form. This analysis in the first three chapters of "Capital" leads straight to Marx's theory of money, a subject that Sweezy specifically did not deal with in "The Theory."

Marx explains that money is merely the generalization of the equivalent form of value. In the course of the development of commodity production, one or at most a few commodities emerge as universal equivalents that in their use values measure the values of all other commodities. Prices are the values of commodities expressed in the *use value* of the universal equivalent measured in terms appropriate to that use value—such as weights of precious metals.

Under capitalism, all wealth comes to be measured in terms of money, or what comes to exactly the same thing, the use value of the commodity that serves as the universal equivalent. Not only prices, including wages, but profits, interest and rents as well are measured in terms of the *use* value of the commodity that serves as money.

Even objects that are not commodities in the strict sense, such as unimproved land and "honor," come to be measured in terms of the use value of the money commodity. As the cynical saying goes, doesn't everybody have a price—that is, a sum of the use value of the money commodity?

Like many other students of Marx over the decades, Sweezy probably assumed that Marx's treatment of the forms of value represented some Hegelian philosophical theorizing that was without practical significance in economic science and could be dispensed with. This was a grave error on Sweezy's part, which was to cast a shadow over his work for the rest of his life.

As we have seen in this blog, the question of *crises* cannot be understood without understanding the forms of value, or in plain language the relationship between commodities and money. And without understanding crises, in my opinion, we cannot understand why capitalism, even pre-monopoly competitive capitalism, once it has developed to a certain point, inevitably generates at periodic intervals generalized crises of overproduction. (4)

And it is these crises that drive the transformation of competitive capitalism into monopoly capitalism. But things do not end there. As crises continue into the future, monopolies will grow and monopoly capitalism itself will prove merely transitional to a higher mode of production where production is based on human need and not profit.

To be fair to Sweezy, he is not the only Marxist who has committed this error. To one degree or another, most Marxists who have dealt with these questions from the death of Engels in 1895 to the present have to be judged guilty on this account. This is a weakness that runs through much of 20th-century Marxism.

I believe this is a weakness that must corrected if we are to create a Marxism of the 21st century that will be adequate for the new era of revolutions, as the events in recent weeks—January-Febuary 2011—in North Africa and the Middle East indicate has now begun.

The economic limits of monopoly pricing

Because Sweezy cut short his examination of Marx's theory of value, he was obliged to analyze prices in an impressionistic—that is, in a marginalist—way. Marginalist economists build complex mathematical models of "general equilibrium," but they have no understanding that price is a quantity of the use value of the commodity that functions as the universal equivalent, or the money commodity, measured in the unit appropriate for the use value of the money commodity such as weights of gold. They do not understand that wages, interest income, profits and rents have to be measured in terms of specific units of the use value of the money commodity. Unfortunately, the same thing is to a large extent true of 20th-century Marxism as well.

The history of prices since 1933

Since 1933, prices in terms of U.S. dollars, and other currencies more or less linked to the U.S. dollar, have with brief exceptions risen almost continuously, sometimes rapidly and sometimes slowly. This change in the behavior of prices is central to the analysis that Baran and Sweezy develop in "Monopoly Capital."

The behavior of prices measured in terms of currencies is in sharp contrast to the century preceding 1933, where periods of rising prices in terms of currency were almost exactly offset by periods of falling prices. Notice that the transition from the period of continuously rising currency prices *does not* coincide with what is generally considered the transition to monopoly capitalism—1870 according to Sweezy or 1900 according to Lenin—but occurs later, in 1933 the year that Franklin Roosevelt assumed office.

Indeed the two most violent periods of price declines in terms of dollars in U.S. history occurred within the era of *monopoly* capitalism. One of these was in 1920-21, and the other during the super-crisis of 1929-33.

The reason for this change in price behavior is not difficult to figure out. In 1933, the Roosevelt administration began what became a 40 percent devaluation of the U.S. dollar against gold. Since that date, whenever major crises have threatened the U.S. government and its "monetary authority," the Federal Reserve Board, has engineered a new devaluation of the dollar—a rise in the dollar price of gold—sufficient to keep commodity prices measured in terms of U.S. dollars on an upward trajectory.

We have seen this once again with the 2007-09 crisis, where the dollar price of gold has risen from about $675 a troy ounce at the beginning of the crisis to over $1,300, and briefly over $1,400 at times, in late 2010 and early 2011. They even have a name for this policy of periodic currency devaluations—it is called "inflation targeting."

In "Monopoly Capital," unlike in "The Theory," Sweezy (and Baran) did not deal with value as such, but they did refer to value indirectly using the economic vernacular term "production costs." (5) As Baran and Sweezy state in "Monopoly Capital," the corporations—industrial capitalists—are able to continuously lower production costs—that is, the values of commodities. But Baran and Sweezy also believed that the monopoly corporations had acquired the power to raise prices continuously above production costs—values—giving birth to the "tendency of the surplus to rise" (6). This tendency was attributed by Baran at least at one point in his 1960 letter to Sweezy to an additional profit that monopoly capitalists are able to add to surplus value.

In "Monopoly Capital," the authors tried to build whole new laws of motion that apply to monopoly capital as opposed to competitive capitalism centered on the "tendency of the surplus to rise." (7) But as I have explained, if prices in terms of the use value of the money commodity were to rise continuously above the values—direct prices—of commodities, the production of money material—the money commodity—would be rendered completely unprofitable.

But under the capitalist mode of production, commodities that are not profitable to produce are not in the long run produced at all. If no additional money material is produced, the market ceases to grow. Long before the production of money material falls to zero, crisis intervenes and lowers prices once again to values—or indeed for a while below values—which restores the profitability of the production of money material, enabling the market to keep growing.

Remember, according to Marx—and he was surely right on this—an expanding market is not optional for capitalist production but an absolute necessity. A capitalism without a growing market—leaving aside short-term fluctuations—is not a sick or dying capitalism, it is a dead capitalism. But it is perfectly possible to have repeated devaluations of the *monetary tokens* such as paper dollars—which represent the money commodity in circulation—against the commodity that serves as money.

The devaluation of monetary tokens is an age-old phenomena that began long before the rise of capitalism. The devaluation of monetary tokens—for example, the lowering of the precious metal content of coins of a given denomination—which leads to rising prices in terms of the devalued currency tokens—goes back to the invention of coined money that occurred about 2,500 years ago. We see it repeatedly in the history of the Roman Empire, to name only one well-known historical example.

Until early modern times, currencies were devalued by reducing the precious metal content of the coins. Today, the Federal Reserve Board accomplishes the same thing by simply allowing the dollar-denominated U.S. monetary base to grow faster than the world's gold mines increase the quantity of monetary material, causing the dollar price of a troy ounce gold to rise.

In those days long before the rise of capitalist production, not to speak of monopoly capitalism, the devaluation of the currency tokens against the money metals also led to rising commodity prices measured in terms of the devalued monetary tokens. As I explained elsewhere in this blog, the apparent ability of the corporations to continuously raise the prices of the commodities they sell is simply the result of repeated devaluations of the monetary tokens that make up currencies.

The corporations had no ability to permanently, let alone continuously, raise prices more and more above values before 1933 when the international gold standard prevailed, and they gained no such ability since then if we measure prices and profits in terms of weights of gold and not devalued monetary tokens. Therefore, the attempt to derive new "laws of motion" for monopoly capitalism such as the "tendency of the surplus to rise" based on the nonexistent ability of the corporations to raise prices continuously above the values of commodities was built on sand.

Crises the missing factor in Sweezy's stagnation theory

If we examine the rising stage of each industrial cycle, we see that the multiplier and accelerator effects indeed do push the capitalist economy toward a situation of full employment of both of

means of production and workers. Each individual industrial capitalist under the pressure of competition is forced to increase industrial production, limited only by the total supply of labor power on one hand and the supply of raw materials on the other. This pushes the economy not only toward a full utilization of the existing means of production—as well as the creation of new ones—it causes the demand for the commodity labor power to grow faster than the supply. The capitalist economy seems headed for full employment.

But as the economy approaches full employment, the powerful tendencies toward continued expansion are overwhelmed by an even more powerful force—the generalized overproduction of commodities. The appearance of overproduction is no mere tendency. It happens in every industrial cycle. Before the economy reaches full employment, overproduction develops to such a point that a crisis breaks out forcibly halting the overproduction. The crisis reinforces the unemployment of both means of production and workers that were left over from the last crisis.

The capitalist economy resembles Sisyphus of the ancient legend. In the course of every industrial cycle, the economy climbs the mountain toward the summit of full employment. It is driven up the slope of the mountain by the whip of competition, which forces each industrial capitalist to increase production without limit. But just as the summit of full employment comes into view, a crisis of overproduction breaks out that pushes the capitalist economy right back down the mountain into the valley of mass unemployment of both means of production and workers.

The capitalist economy is recovering but never recovered

This is even reflected in the terminology used by the mass media. Outside of actual periods of recession, the media is talking about the "economic recovery." The press explains how it has lasted X number of months and how it is "gaining strength." But before the economy is fully "recovered," it suffers a relapse of the "illness" of "recession" with its idle means of production on one side and mass unemployment of workers on the other.

It is therefore the crises that breed stagnation and stagnation that breeds monopoly. Monopoly then reinforces stagnation and drags it out. But monopoly itself is the offspring of the crisis. Therefore, the stagnation that is caused by monopoly is ultimately rooted in the recurrent crises of overproduction. And the crises of overproduction are themselves rooted in the deep-seated economic laws that dictate that the the ability of capitalism to physically increase production exceeds the ability of the market to expand. Hence the periodic capitalist crises and the stagnation they breed prevent production from growing faster than

the market in the long run.

Coming up

In order to keep these replies within reasonable limits, I have decided to break this one into three segments, not two as I planned last week. The next and I believe final segment of this reply will be next week and will deal with Sweezy's approach to crisis in his "Theory of Capitalist Development." After that, there will be one final segment where I will examine how the working class can fight unemployment. This will then close these replies focusing on Keynesian economics. After that, I expect to revert to a once-a-month schedule.

Are Marx and Keynes Compatible? Pt 8

Sweezy attempts to develop a theory of crises in 'Theory of Capitalist Development'

In "Monopoly Capital," Sweezy (and Baran) treated crises and the industrial cycle only in passing. In contrast, in "The Theory of Capitalist Development" Sweezy examined Marxist crisis theory in considerable detail. Even today, "The Theory of Capitalist Development" can be recommended for anybody interested in the development of Marxist crisis theory in the first part of the 20th century.

In his survey, Sweezey examined the writings of such Marxists as Kautsky, Hilferding, Rosa Luxemburg and Henryk Grossman. Sweezy found essentially three crisis theories among these early 20th-century Marxists.

One was put forward by Karl Kautksy around the turn of the 20th century. It involved the question of whether capitalism was evolving toward a state of chronic depression.

What is sometimes called the "Great Depression" of 1873-1896 (1) had come to an end, and the world capitalist economy was entering a phase of rapid economic expansion. According to Kautsky, it was the existence of agrarian markets still dominated by pre-capitalist simple commodity production that explained capitalism's continued ability to grow.

However, as capitalism continued to develop, these markets would be expected to decline in importance and the world capitalist economy would, if socialist revolution did not intervene, sink into a state of more or less permanent depression. This would mark the end of capitalism's ability to develop the productive forces of humanity.

Therefore, according to Kautsky, the cyclical crises and their associated depressions were heralds of the approaching state of permanent depression. As such, they were reminders that capitalist production was historically limited and would inevitably give way to a higher mode of production.

Later, in 1912, Rosa Luxemburg attempted to prove Kautsky's turn-of-the-century views in a rigorous way in her "Accumulation of Capital." Luxemburg believed that she had indeed proven that assuming that all production is capitalist—that is, there are no more simple commodity producers—expanded capitalist reproduction would be a mathematical impossibility. And remember that according to Marx capitalism can only exist as expanded reproduction.

Luxemburg's theory of imperialism

In order to provide expanding markets for its capitalists, Luxemburg explained, each advanced industrial capitalist country is driven to dominate as many pre-capitalist agrarian regions as possible. Luxemburg therefore believed that she had discovered not only the absolute economic limit to capitalist production beyond which it could not exist—and therefore the economic inevitability of the transition to socialism—but had also explained the economic basis of imperialism. Luxemburg's view formed one of two theories of imperialism that were held by early 20th-century Marxists.

The other theory, supported by Hilferding and Lenin, identified imperialism with the growth of monopolies and finance capital. Indeed, for Lenin monopoly capitalism and imperialism were different words for the same thing.

With few exceptions, most Marxists believed that Luxemburg had not proven that expanded capitalist reproduction would be a mathematical impossibility in a pure capitalist society where all pre-capitalist simple commodity production had given way to capitalist production.

If the Kautsky-Luxemburg theory of crises (2) had been correct, it would indeed have provided a materialist proof that capitalism would in the course of further development necessarily give way to a higher mode of production. In contrast, Sweezy in "The Theory" showed that a rival theory—that crises arise out of disproportions among the branches of capitalist production—had no such implication.

According to this theory, periodically disproportions grow to such an extent that a crisis is needed to restore proportional production. Here crises appear as mere accidents and not as part of a historical trend pointing toward the inevitable future downfall of capitalism.

Indeed, it was held by the more right-wing Social Democrats that as the power of the banks, trusts and cartels grew and capitalism became more organized, disproportionate production would become rarer and crises would become less severe. In fact, there was much speculation that a future universal cartel would be able to eliminate capitalist crises altogether. (3)

Tugan-Baranovsky's theory of unlimited growth of productive forces under capitalism

The disproportion theory of crises was developed to an extreme by the Ukrainian semi-Marxist economist Mikhail Tugan-Baranovsky (1865-1919). Inspired by Marx's diagrams of expanded reproduction formulas in Volume II of "Capital," Tugan-Baranovsky claimed that as long as the proper proportions of production were maintained, there was virtually no limit to the ability of capitalism to expand and develop the productive forces. Therefore, Tugan-Baranovsky held, in complete contradiction to Marx's historical materialism, a future transition to socialism depended on the moral superiority of socialism relative to capitalism, and

not economic necessity.

To understand Tugan-Baranovsky's arguments, we should recall the basic equation for capitalist reproduction: cII = vI + sI. The term cII refers to the constant capital that is used up by the department of production that produces the means of personal consumption, called by Marx Department II.

On the right side of the equation, the term vI refers to the means of production that Department I—the department of production that produces means of production—produces that are exchanged for the means of consumption that are destined to be consumed by the workers—the producers of surplus value.

The other term that appears on the right side of the equation, sI, refers to the means of production that are exchanged for the means of consumption produced for the personal consumption of the capitalists. According to Marx's theory of expanded reproduction, any increase in cII must be matched by an increase in vI + sI. As capitalism develops, the organic composition of capital rises. This means that both cII and vI + sI will grow more slowly than production as a whole. Or what comes to exactly the same thing, cI, which represents the means of production that are used to produce additional means of production and therefore circulate entirely within Department I, grows faster than the economy as a whole.

Tugan-Baranovsky claimed that as long as the proper proportions are maintained between the various branches of production, there is no limit whether extensive or intensive on the ability of capitalism to develop the productive forces. Tugan-Baranovsky went so far as to claim that even if the productivity of labor rises to the extent that only a single worker is left, capitalist production would continue to go its merry way.

Sweezy was appalled by Tugan-Baranovsky's arguments, just as many other Marxists have been over the decades. Isn't production in the final analysis always production to meet some human need? In Tugan-Baranovsky—like in Ricardo—we have production solely for the sake of production! (4)

One thing that Sweezy overlooked in his criticism of Tugan-Baranovsky in "The Theory" is that capitalism is about accumulation of capital not use values. The accumulation of use values is merely a byproduct of the accumulation of capital.

Capital consists of value—that is why Marx defined capital as "self-expanding value." If there was only one worker, even if she worked 24/7 she would be (re)-producing far less value—embodied human labor measured in terms of time—than the hundreds of millions workers do today. Therefore, no matter how much in terms of use values was produced by a mass of the productive forces beyond anything that exists today, these productive forces would represent far less capital measured in terms of hours of embodied labor time—value—than they have ever represented in the history of capitalist production.

But capitalist production above all aims at expanding value and not use values, and so it is hard to see how the productive forces could actually develop the way Tugan-Baranovsky claimed they could within the limits of *capitalist* production.

Falling rate of profit theory of crises

The third theory of crises examined by Sweezy was the "falling rate of profit theory," which remains popular today. As capitalism develops, the organic composition of capital rises, which assuming that the rate of surplus value is unchanged will lead to a fall in the rate of profit. Even if the rate of surplus value rises, it is quite possible that a higher rate of surplus value will express itself in a lower rate of profit. That is because the rate of surplus value is calculated on the variable capital alone, while the rate of profit is calculated on the total capital.

Since capitalism is production for profit, if the rate of profit keeps falling isn't it only a matter of time before the rate of profit will be too low to provide sufficient incentive for continued capitalist investment? To use the language of the Keynesian economists, investment opportunities will begin to vanish.

Instead of converting money into commodities—means of production and labor power—the industrial capitalists will turn into misers and hold on to their money. This hoarding of money will then lead to a generalized overproduction of commodities. The mass unemployment created by the crisis increases the rate of surplus value, which again raises the rate of profit, which leads to recovery and the cycle repeats.

Sweezy pointed out that the falling rate of profit—or inadequate production of surplus value—crisis theory does not say that a generalized overproduction of commodities causes the crisis. Rather, it says that a generalized overproduction of commodities develops as a *result of the crisis*.

According to the falling rate of profit theory of crises, if the rate of surplus value rises sufficiently the crisis goes away. Henryk Grossman and after his death Paul Mattick have been the leading Marxist supporters of this theory of crises.

Sweezy found all three crisis theories inadequate if not just plain wrong. Luxemburg's claim in the "Accumulation of Capital" was subjected to sharp attacks by many Marxists shortly after it was published. Lenin in his obituary to Luxemburg in 1919 (5) mentioned that she was wrong about the accumulation of capital, a clear reference to her "Accumulation of Capital."

Sweezy accepted that the Kautsky-Luxemburg theory had been convincingly refuted, which with very few exceptions remains the consensus of Marxists to this day. Sweezy also, however, was not satisfied with the "disproportionate production" theory, which reduced crises to mere accidents. Certainly, Sweezy sensed that there was more to crises than mere accidental disproportions. There are many statements in Marx to that effect. This left the falling rate of profit theory of crises.

Sweezy had doubts about that crisis theory as well. Sweezy, remember, did not find Marx's demonstration of the tendency of the rate of profit to fall due to the rising organic composition of capital at all convincing. Wasn't it just as likely, Sweezy wrote, that the rate of surplus value would rise faster than the organic composition of capital? If it did, the rate of profit would rise rather than fall.

The Sweezy of "The Theory" therefore believed that the tendency of the rate of profit was indeterminate. But if the tendency of the rate of profit is indeterminate, the rug is pulled out from the supposed inevitability of crises caused by a falling rate of profit. Capitalism could just as well develop in a crisis-free way.

However, the concrete history of capitalism is marked by repeated crises. The Sweezy of "The Theory" therefore believed that there must be some other factor behind crises than the tendency of the rate of the profit to fall due to the long-term rise in the organic composition of capital.

Sweezy's proposed solution to the problem of crises

In "The Theory of Capitalist Development," Sweezy held that there are actually *two types of crises*. One type is caused by an insufficient rate of profit. The other is caused by underconsumption. Given Sweezy's doubts about the tendency of the rate of profit to fall, he almost certainly believed that real-world crises were of this second type. (Chap. VIII, Sec. 4, p 145, "Theory of Capitalist Development)

Sweezy's theory of crises, crises of underconsumption

Sweezy rejected what he called the "naive underconsumption theory that is popular among trade unionists," which we often see even today in the socialist press—that workers cannot buy back all the commodities that they produce. If the capitalists did pay the workers enough to buy back the products they produced, there would be nothing left over for the capitalists and the other exploiters. There would be no profits and no capitalism.

Sweezy developed a far more sophisticated theory of crisis of underconsumption. In Sweezy's view, crises of underconsumption arise not from low wages but rather the opposite—wages that are "too high" as far as capitalist production is concerned.

When the rate of surplus value falls, the capitalists respond by replacing workers with machines, which causes the organic composition of capital to rise. A rise in the organic composition of capital means that the means of production should rise relative to the means of consumption. However, Sweezy held in the "The Theory" that a rise in the means of production *necessarily means* a proportionate rise in the production of the means of consumption as well.

Sweezy held that as the organic composition of capital rises, the capitalists of Department I convert a smaller and smaller percentage of the total surplus value into either personal means of consumption or into additional variable capital.

Instead, Department I produces additional means of production that are used within Department I itself to produce still more means of production. Exactly where Department II is supposed to obtain its additional means of production to expand its scale of production so that it keeps up with Department I isn't clear. In any case, Sweezy believed that the result will be "underconsumption"—an insufficient demand for items of personal consumption. This shortfall in demand for consumer items might express itself in either a crisis or in stagnation. (6)

A critique of Sweezy's underconsumption theory of crisis

This argument is open to the same criticism that N.I. Bukharin made of Rosa Luxemburg's argument that it would be impossible for the capitalists to realize their surplus value in a closed capitalist economy. Luxemburg had argued that workers can only consume their wages but not surplus value. However, in order to carry out expanded reproduction the capitalists have to capitalize a portion of their surplus value in the form of additional variable capital. This is not possible, Luxemburg argued, because the workers in that case would be consuming surplus value.

What Luxemburg overlooked was that the workers are consuming *yesterday's* surplus value that has now been converted into additional means of consumption that workers convert into *additional* labor power when they consume their wages. The workers are then forced to sell this additional labor power to the capitalists, which becomes additional variable capital. Therefore, variable capital just like constant capital is nothing but the accumulated surplus value of the past.

Or as Bukharin put it, Luxemburg proved the impossibility of expanded reproduction in a pure capitalist economy by assuming the conditions of simple reproduction. Under simple reproduction, none of the surplus value is converted into variable capital. If we don't allow surplus value to be converted into variable capital, Luxemburg's implicit assumption, we of course cannot have expanded capitalist reproduction.

Sweezy's argument is open to the same objection. Sweezy assumes the conditions of expanded reproduction with an unchanged organic composition of capital to prove that expanded reproduction with a rising organic composition must lead to an "underconsumption." Carried to its logical extreme—which Sweezy does not do—this would imply that expanded capitalist reproduction with a rising organic composition of capital is impossible. In reality, the contradiction that Sweezy believed would inevitably lead to underconsumption disappears once we realize that a rising organic composition of capital means that Department II must invest some of its profits in Department I.

There are many ways capital can move from Department II to Department I. In some cases, it is simply a matter of who the industrial corporation (industrial capitalist) sells its commodities to that determines whether its production counts as part of Department I or Department II. For example, in the case of an electricity generating firm, the electrical power counts as production in Department II if it is sold to individuals or families who use it for their personal consumption and as Department I if the power is used to power factories.

In other cases, many factories can easily shift production from items that serve as personal consumption to items that serve as means of production. Especially in the age of giant monopolies, large corporations often own factories that produce different types of commodities with different use values and over time can easily invest more in their factories that produce means of production as opposed to personal consumption.

In addition, the system of credit, banks and stock markets offers many ways that capital can be transferred from a slower growing Department II to a faster growing Department I.

Indeed, in a capitalist economy we know capital is always moving from branches of production that are earning a lower than average rate of profit to branches of production the are earning a higher than average rate of profit. If we assume a rising organic composition of capital, the industrial capitalists will find more opportunities for investment where the rate of profit exceeds the average in industries producing the means of production than they will find in industries that produce the means of personal consumption. This does not mean that the movement of capital from Department II to Department I will proceed without friction, as Marx liked to say. But it will proceed.

Since it was clear that capitalism over the decades was expanding with a rising organic composition of capital, Sweezy had to explain how this could happen. Otherwise, he would be in danger of having to explain why the actual development was "impossible." New industries therefore played for Sweezy the role that pre-capitalist simple commodity production played for Luxemburg.

Reflecting the influence of Schumpeter, Sweezy held that "new industries" could overcome underconsumption. For example, it might take many years to build a system of railroads. During the

period when the tracks are being laid, a huge number of construction workers have to be paid, which enables them to spend their wages on consumer commodities.

The capitalists who own the construction companies also have to spend a portion of their profits on means of personal consumption. Yet the railroad while it is under construction delivers no commodities to the market. The demand for consumer commodities will be increased without any immediately offsetting increase in the supply of consumer commodities. Instead of a glut in Department II, there will be a shortage of commodities, which will then oblige the capitalists in Department II to increase their investments. This is indeed how the "accelerator effect," as the bourgeois economists call it, works. (7)

Sweezy admitted that this was the case in new industries, but industries do not have to be new industries to call for large-scale investments that stir up demand for consumer commodities long before they contribute to an increase of consumer commodities. All that is required is that such investments take a certain period of time to complete.

For example, railroad technology was developed in the early 19th century, but investments in railroads were still stirring up a large-scale demand for consumer goods into the early 20th century, long after railroads had ceased to be a new "innovative" technology. Indeed, in "Monopoly Capital" Baran and Sweezy attribute the rapid growth of the U.S. economy right up to the crisis of 1907 to the continued impact of "railroadization."

Sweezy seems to assume that once an industry has ceased to be "new," no large-scale investments will be undertaken. This seems like a rather arbitrary assumption unless we assume that all industries that are not in the process of being either partially or entirely replaced by other industries that do the same thing with different technology are by definition "new" industries.

For example, railroad transportation in the U.S. was increasingly replaced by trucks starting in the second decade of the 20th century. Trucks are simply an application of automobile technology and the internal combustion engine to the transport of commercial commodities. Therefore, when automobile technology, which includes trucks, developed on a large scale starting in the 1910s, investment in railroads went into a long-term decline.

What Baran and Sweezy were to call "railroadization" in "Monopoly Capital" was replaced by "automobilization." Therefore, there will always be "new" industries by definition to counteract the "underconsumption" even if technological innovation were to cease entirely. If the automobile and the internal combustion engine had not been developed, for example, railroads would still be a "new" industry even today.

Sweezy also saw bad investments by the capitalists as a force that offsets the tendency toward underconsumption. These bad investments generate demand. The construction companies that create new factories and railroads have to be paid, generating demand for consumer commodities by both the capitalists and the workers of the construction industries. But if the resulting factories fail to produce more consumer commodities that people are willing to buy, demand is produced without generating an additional supply of (salable) commodities.

Bourgeois "business cycle" theorists often blame mistaken investments for causing crises. The crisis then liquidates the bad investments. Sweezy turned this argument on its head and held that bad investments tend to prevent crises or "stagnation."

Sweezy's biggest error

Last week, I wrote that Sweezy made a grave error in "The Theory" when he failed to investigate the forms of value and money. Because of this error, he could not really grasp the essence of crises as crises of generalized overproduction of all commodities relative to the money commodity. He didn't realize that generalized overproduction involved not only an overproduction of the means of consumption—Marx's Department II—but also of means of production—Marx's Department I.

Sweezy failed to understand that under capitalism, once it has developed to the point where the industrial capitalists can rapidly expand production, production will, due to the basic contradictions of commodity production, *necessarily* grow faster than the combined purchasing power of the workers and the capitalists and their hangers-on including the state. Periodically, therefore, crises must break out that keep the growth of production in line with the growth of the market in the long run.

At least before the 1970s, Sweezy accepted the claim that the government could always step in to purchase the unsold commodities. In "The Theory," he seems to take for granted that as long as there are unsold commodities, the government and its monetary authority can issue additional legal

tender paper money and use it to purchase the unsold commodities ensuring "full employment." He thus assumed that if only the government is willing to spend enough money it can always push the economy *if it wishes* right up to the point of "full employment" and keep it there. This is why Sweezy is often considered a "Keynesian" Marxist.

He correctly saw that today's monopoly capitalism has a major problem in realizing the value of the commodities it produces. But he didn't understand why this is so. He therefore assumed that spending by the capitalist government if it is large enough can always solve the problem of realizing value and surplus value, and thus crises and stagnation.

Only late in life when he observed the "stagflation crisis" of the 1970s and early 80s—after "Monopoly Capital" had been written—did Sweezy note that the purchasing power that the government and the monetary authorities were attempting to create was being devoured by inflation. He began to lose his earlier confidence in the ability of the government to create the necessary purchasing power right up to "full employment." But even then he was never able to explain why this was so and integrate it into his basic economic theory.

The incorrect idea that the capitalist government can create demand at will right up to "full employment" if only it spends, and if necessary prints, paper money continues to exercise a considerable influence in *Monthly Review* circles.

An example of this is the publication by "Mrzine," an online publication supported by the Monthly Review Foundation, of a famous article by Michal Kalecki, "Political Aspects of Full Employment." In it, Kalecki explained that it is well within the power of the capitalist state to create "full employment" *if it wishes to*. I will have more to say on this question in my final segment in this reply, which will deal with the question of how the workers can wage the fight to abolish unemployment.

Sweezy's disillusionment with Keynes reflected in his letter to Baran

In his 1962 letter to Baran, Sweezy expressed a growing dissatisfaction with Keynes. This is interesting in light of John Bellamy Foster's recent emphasis on Keynes. Let's see what Sweezy had to say about Keynes in his 1962 letter to Baran.

"What was new in Keynes," Sweezy wrote to Baran," was the assertion that, left to itself, the competitive economy could not recover—unless the marginal efficiency of capital [expected profits on new investment] happened to be high enough, which Keynes thought it had a deeply rooted tendency not to be. In other words, he introduced the problem of stagnation, alias underemployment 'equilibrium.' This you will not find in any of the earlier theories in the classical-neoclassical tradition—though of course many respectable thinkers such as Hobson and Veblen made serious attempts to explain them [the contradictions]. It was thus Keynes's historical merit to bring the problem of stagnation into the orbit of orthodox, accredited economics where it occupied the center of the analytic stage for a good decade. (Note well, however, that since the late 1940s it has been largely banished again.)"

"His vision," Sweezy wrote to Baran, "of a stagnating economy has all sorts of ramifications and implications which were absent from the neoclassical vision."

"And I must say," Sweezy wrote in the same letter, "that the more I read of the General Theory the *less convincing his arguments seem.*" [emphasis added—SW]

The missing ingredient in the Monthly Review School—crises

What Keynes left out, according to Sweezy, was monopoly. While that is true as far as it goes, it raises the question of why a capitalist system based on free competition evolved into a capitalist system where monopoly plays a growing role. This is an extremely important question, because Marx (and Engels) saw the tendency toward the concentration and centralization of capital as more than anything else pointing toward the inevitable transition to a higher mode of production.

Capitalism grows out of simple commodity production that is based on small-scale scattered production. It evolves toward monopoly, which itself is, according to Marx and Engels as well as Lenin, merely a transitional stage toward a planned socialist economy managed by the associated producers.

Crises, monopoly, stagnation and the historical tendency of capitalist production

According to Marx, as capitalism develops, capital becomes more and more centralized. The centralization of capital means that the number of independent enterprises shrinks. Taken to its

logical extreme, all of production would end up being centralized in the hands of a single corporation. Once this happens, the planning principle would entirely extinguish the market.

There would be no further commodity production, no money and of course no crises of generalized overproduction of commodities for the simple reason that no commodities would be produced. All we would have to do to achieve a socialist society would be to eliminate the stockholders, who would play no necessary role at all, and subordinate the management of the corporation to the employees—the associated producers.

Why do the number of independent firms decline? One of the reasons is the growing economies of scale. As a rule, larger enterprises have lower individual prices (costs) of production and can undersell the smaller enterprises. It is no accident that "neo-classical" economists, who have good reason to play down or deny the growth of monopoly, like to assume "constant returns to scale." But there is another reason for the growth of monopoly.

Once capitalism evolved to the point where it could rapidly increase industrial production, it gained the ability to expand production faster than the market for its products can grow. Suppose that there are a hundred independent capitalist enterprises producing a given commodity, but the entire market demand can be meet by 90 enterprises if they work at full capacity. Competition will therefore tend to reduce the number of independent firms to 90.

Now assume that once the number of enterprises drops to 90, the entire market demand can be satisfied by 75 enterprises if they work at full capacity. Competition will then further reduce the number of independent enterprises to 75. Competition, therefore, resembles a game of musical chairs in which the number of players is steadily reduced. It is only a matter of time before only a handful of independent firms exist and monopoly—or oligopoly—is born.

The firms in the monopolist association then attempt to bring the game of musical chairs to a halt by dividing up the market and keeping some of their capacity idle—or if too much capacity has to be idled, arrange a planned liquidation of the excess capacity. They also try to prevent any new firms from attempting to enter the business and often turn to the state power to keep rival firms out.

They use the planning principle not to expand the production of use values so that all reasonable human needs are met but rather use it to hold back the expansion of use values in order to prevent the collapse of capitalist relations of production entirely. This is what monopoly capitalism—also called imperialism—is all about.

But things do not end there. The tendency for production to expand faster than markets again reasserts itself despite the monopolies, leading to new crises of overproduction. This causes competition to break out anew, breaking up the existing monopolistic associations. However, renewed competition leads to even greater centralization of capital and new monopolistic associations with even fewer independent corporations than the old associations had.

Expanding markets counteract the tendency toward the centralization of capital

Marx wrote that the capitalist mode of production would indeed quickly collapse if there weren't counteracting decentralizing trends that counter the centralizing trends. But what are these decentralizing trends that work in the direction of prolonging the capitalist mode of production?

Though as a rule markets grow more slowly than the ability of the industrial capitalists to expand, there are certain situations where the market for a time grows faster than the capitalists' ability to expand production. Under these conditions, the tendency toward the centralization of capital reverses and gives way to a counter-tendency toward the decentralization of capital.

For example, within each industrial cycle there is stage where the market expands at a rate that exceeds the ability of the industrial capitalists to increase production. However, the market cannot maintain the rate of expansion for reasons that I have examined in my main posts.

In addition, when new types of commodities are invented, there is a period when the market grows faster than production of the new type of commodity. It seems that the market for smart phones—essentially hand-held computers that have a phone "function"—is going through such a phase at present.

When this happens, many existing or aspiring "entrepreneurs" try their luck, and for awhile the number of firms producing the new commodity expands. Or what comes to exactly the same thing, capital becomes increasingly decentralized. But it is only a matter of time—and the more capitalism develops the shorter the time is—before overproduction appears and most of the new entrepreneurs are driven from the field leaving a only a few survivors. Or as the business press puts it, the phase

of "maturation" sets in and "consolidation" occurs. Capital becomes centralized and the new branch of production is monopolized by a handful of corporations.

Another situation where capital becomes decentralized arises when a very tight monopoly made up of a few very large corporations—which represents a high degree of concentration of production as well as the centralization of capital—succeeds in maintaining profits that are far above the average rate of profit for a prolonged period. In this case, the centralization of capital in a particular branch of industry has gotten ahead of itself. Eventually, however, the exceptionally high monopoly super-profits encourage other industrial capitalists to make exceptional efforts to overcome the "barriers to entry."

Very often this doesn't happen in the country where the large monopolies that are making exceptional super-profits are located but in other capitalist countries that are passing through a rapid phase of capitalist development.

One example of this is the global auto industry after World War II. It seemed that the U.S. "big three" plus the smaller and now long defunct American Motors had the world market for themselves. Indeed, no large new automobile firms were to emerge within the U.S., while American Motors collapsed.

But on the international level, the U.S. monopoly was increasingly challenged by European and then Japanese automobile producers. Eventually, this led to the collapse of the super-profits of the "big three." Indeed, the super-profits were replaced by massive losses. Eventually, the "old" General Motors went bankrupt. A similar pattern can be observed in the steel and other basic industries.

However, sooner or later overproduction leads to renewed centralization, this time on a global scale. Since under capitalist production the ability of the industrial capitalists to increase production is greater than the long-term ability of the market to expand—despite fluctuations in the opposite direction—the ascendant tendencies toward the centralization capital ultimately trumps the tendencies working toward the decentralization of capital.

The Monthly Review School has a major advantage over the rival "falling rate of profit" Grossman-Mattick school, because its adherents do understand that the realization of surplus value is a major problem for the capitalist system. And they have correctly put the spotlight on monopoly and stagnation. Monopoly shows that the capitalist system is not only "irrational," as Baran and Sweezy stressed in "Monopoly Capital," but that the economic system itself is evolving in the general direction of socialism. And more recently, they have called attention to the phenomenon of "financialization" that followed the 1979-82 Volcker Shock.

What they are still lacking is a correct theory of money and crises. However, in order to achieve this they will have to pick up where Sweezy left off in his "Theory of Capitalist Development." As I explained last week, Sweezy cut short his analysis of value by failing to analyze the forms of value and money. If the Monthly Review School does analyze the forms of value, they will be able to understand that the periodic capitalist crises are exactly what Marx and Engels called them, crises of the general overproduction of commodities.

A correct crisis theory will tie together the Monthly Review views of monopoly and stagnation. The transition of capitalism to socialism will emerge as an economic inevitability as well. However, they will not be able to do this if they remained focused on Keynes. That is the wrong path.

Are Marx and Keynes Compatible? Pt 9

The aftermath of the crisis of 2007-09 is bringing in its wake a revival of workers' struggles in many areas of the world. Last year, we saw a wave of demonstrations in Europe centering first in Greece and then in France, Portugal and Spain. In these countries, public-sector workers staged demonstrations and strikes supported by industrial and other workers as well as students who are facing massive cutbacks in education.

Then, starting in January, mass demonstrations beginning in Tunis against unemployment, soaring food prices and police-state rule quickly spread to other Arab countries under the rule of imperialist-supported monarchies and dictatorships. These demonstrations have now spread to U.S.-occupied Iraq.

Monetary Keynesianism and high world food prices

In the Arab world and other countries that are nationally oppressed by imperialism, the demand for governments to do something about the skyrocketing price of food has become an increasingly important issue. Rising food prices can be traced back to the "Keynesian monetary" policies that the U.S. Federal Reserve System has followed since the last global economic crisis entered its most intense phase in the fall of 2008. (1)

Under the prevailing dollar-centered international monetary system, any devaluation of the U.S. dollar forces even greater devaluations in the currencies of most nationally oppressed countries. The result of the devaluations is skyrocketing food prices in terms of local currencies. The rise in food prices is being fueled by speculators who are purchasing agricultural commodities as a hedge against still further devaluations of the dollar and its local satellite currencies.

Fight spreads to the USA

And now the struggle of the workers and their allies has suddenly flared up in the U.S. itself, beginning with the state of Wisconsin.

In the November 2010 Wisconsin elections, Republican candidate for governor Scott Walker was victorious. The Republicans also won control of both houses of the state legislature. The Republican sweep in Wisconsin was rooted in the failure of the Obama administration and the Democrat-controlled U.S. Congress elected in 2008 to launch the "new New Deal" that U.S. progressives had expected.

As a result, many progressive voters stayed home on election day and some workers voted Republican as a protest against the failure of either the Obama administration or the Democrat-controlled Congress to launch an effective attack against the massive unemployment crisis that was created by the economic crisis of 2007-09.

Republican governor Scott Walker, however, not only put forward a massive program of cuts in state services combined with cuts in wages and jobs for state workers. He and the Republican majority in the state legislature planned to pass a bill that would take away the right to collective bargaining from state workers.

This goes beyond mere job and wage cuts and other austerity measures. The right of workers to bargain collectively over their conditions of employment is a basic (bourgeois) democratic right. Walker had assumed that the state workers and the trade unions would limit themselves to a few ineffectual complaints.

Instead, unions throughout Wisconsin, including unions in the private sector, along with students who are seeing their chances of getting a decent education vanish, seized the state capitol building, in effect preventing the legislature from meeting and passing the anti-union, anti-democratic legislation.

The bosses attempted to rally the reactionary corporate-financed "Tea Party"

movement in a counter-demonstration. But at most only a few thousand bused in reactionaries showed up at the Capitol and were met by tens of thousands of workers. The struggle is now spreading to other Midwestern states, including Ohio and Indiana. Whatever the immediate outcome, the spirit of fight-back that first manifested itself among the Greek workers has now spread to the very center of capitalist reaction, the United States itself.

Does this growing wave of democratic and trade union struggle in both oppressed and imperialist countries indicate that a resumption of the world socialist revolution, which began in Russia in October 1917 but was largely pushed backed by capitalist reaction by the end of the 20th century,

is approaching? Or will the new wave of struggles end with new defeats and an even more vicious wave of reaction?

A lot depends on whether the workers' movement can learn the lessons of the revolutions of the 19th and 20th centuries. Or to put it in economist terms, will the working class follow Marx or will it follow Keynes?

The road of Marx means the workers must aim at first winning political power and then use that power to transform capitalist production into socialist production. The road of Keynes means giving capitalism yet another chance in exchange for promises that future capitalist governments will follow policies aimed at achieving "reasonably full employment." (2)

Since the economic crisis broke out in 2007, *Monthly Review* editor John Bellamy Foster has not agitated for a revival of Marxist economics in the workers' movement, as we would expect from the leading Marxist journal published in the United States. Instead, he has pushed for a revival of Keynesian economics in university economics departments.

In my last segment, I noted that the online publication *Mrzine*, supported by the Monthly Review Foundation, had republished a well-known article by the socialist economist Michal Kalecki, entitled "Political Aspects of Full Employment." This article was written during World War II.

The Polish-born Kalecki wrote largely in Polish. He is said to have "discovered" Keynes's "General Theory" independently of Keynes. Kalecki has arguably exercised more influence on the Monthly Review School than any other economist except Paul Sweezy himself. Sweezy often praised Kalecki's work. As we will see below, Foster's emphasis on reviving Keynesian economics in university economics departments actually makes a lot of sense if we accept Kalecki's analysis of the problem of unemployment.

I have noted that Paul Sweezy is often considered a "Keynesian Marxist." Throughout his long life as an economist, Sweezy emphasized the problem of realizing the value, including surplus value, of commodities. On this question, it is Sweezy who is in agreement with Marx and not the Marxists of the Henryk Grossman-Paul Mattick school, who deny that the realization of value and surplus value is a problem.

According to these and other "anti-Monthly Review" Marxists, it is only the production of surplus value and not its realization that lies at the root of capitalist crises and unemployment. But unlike Marx, Sweezy during most of his life also believed that the problem of realizing the value and surplus value of commodities could be solved if the government were willing to spend, and if necessary print, money in sufficient quantities to achieve "full employment."

Here Sweezy is in agreement with Keynes and not Marx. There is no evidence that I know of that Marx believed that the problem that capitalism periodically encounters in realizing the value—including the surplus value—of commodities could be solved by government spending or printing additional paper money. On this question, Kalecki was in agreement with both Keynes and Sweezy against Marx. (3)

Kalecki wrote: "If the government undertakes public investment (e.g. builds schools, hospitals, and highways) or subsidizes mass consumption (by family allowances, reduction of indirect taxation, or subsidies to keep down the prices of necessities), and if, moreover, this expenditure is financed by borrowing and not by taxation (which could affect adversely private investment and consumption), the effective demand for goods and services may be increased up to a point where full employment is achieved. Such government expenditure increases employment, be it noted, not only directly but indirectly as well, since the higher incomes caused by it result in a secondary increase in demand for consumer and investment goods."

But where will the money that governments must borrow come from? "What happens," Kalecki asked, "if the public is unwilling to absorb all the increase in government securities?" His answer: "It will offer them finally to banks to get cash (notes or deposits) in exchange. If the banks accept these offers, the rate of interest will be maintained. If not, the prices of securities will fall, which means a rise in the rate of interest, and this will encourage the public to hold more securities in relation to deposits. It follows that the rate of interest depends on banking policy, in particular on that of the central bank. If this policy aims *at maintaining the rate of interest at a certain level* [emphasis added—SW], that may be easily achieved, however large the amount of government borrowing. Such was and is the position in the present war. In spite of astronomical budget deficits, the rate of interest has shown no rise since the beginning of 1940."

In plain language, Kalecki is saying that if there is not enough money in existence to finance the government deficits, the government or its "monetary authority"—the central bank—can simply

print the difference and keep the rate of interest as low as it wants to right up to "full employment."

Kalecki wrote "Political Aspects" during World War II. At that time, despite record budget deficits relative to the economy as a whole, and the full employment of the war economy, long-term interest rates remained at Depression lows. But during the 1970s and early 1980s, when government budget deficits were radically smaller relative to the economy as a whole, long-term interest rates soared to the highest levels ever experienced in the entire history of capitalist production.

Why couldn't the "monetary authorities" simply print quantities of money to keep interest rates low as Kalecki was sure they could as long there were unused means of production and unemployed workers? The concrete economic history of capitalism since Kalecki wrote his "Political Aspects" during World War II shows that there is something very wrong with his analysis.

Why were interest rates so low during World War II? Kalecki overlooked the fact that WW-II was preceded by the worst depression—the Great Depression—in the history of capitalism. As a result, huge amounts of money had fallen out of circulation and accumulated in idle hoards in the banks—especially U.S. banks. In addition, commodity prices in terms of gold—and to a lesser extent in terms of devalued paper currencies as well—fell sharply as a result of the unprecedented Depression conditions. The fall in prices during the Depression decade greatly increased the quantity of money in "real" purchasing power terms.

In addition, the fall of prices in terms of money material—gold—during the Depression had increased the profitability of gold production—both relative to other industries and absolutely. The result was a major rise in gold production, and thus in the years immediately preceding the war a huge increase in the quantity of money material measured in terms of the weight of monetary gold.

Therefore, both in terms of real purchasing power and in terms of its quantity—the total mass of monetary gold measured in terms of weight—the amount of world money vastly increased in the years immediately preceding the war. The buildup of these vast hoards of idle money capital in the immediate pre-World War II years put massive downward pressure on the rate of interest.

The nature of war economy

Kalecki also ignored the fact that during the all-out war economy of World War II, capitalist expanded reproduction was suspended. Once the economy reaches full employment of the means of production and workers under conditions of all-out war, no further increase in production can occur. Real capital is not expanding but *contracting* as fixed capital is consumed and not replaced. In addition, in areas of military operations, a portion of the fixed capital is physically destroyed—for example, the bombings of factories.

As they used up their capital in the production of war "goods," the industrial capitalists exchanged real capital for fictitious capital—government bonds—promises to repay with interest *in the event of victory*. Though gold production declined considerably during World War II, it did not drop to zero. Indeed, it remained at a level considerably higher than that of the decade that immediately preceded the Depression. Therefore, the ratio of money capital relative to productive capital actually increased as the war progressed. This is the exact opposite of what occurs during the boom phase of the industrial cycle. Interestingly enough, after the war ended and budget deficits were drastically reduced, interest rates began their long drift upward.

Limits of war economy

Contrary to what is sometimes claimed by Keynesian or Keynes-influenced economists, a war economy cannot be a model for a "full employment peacetime" capitalism. Capitalism can only exist—with occasional interruptions caused either by severe cyclical crises or all-out war—as *expanded* reproduction.

Expanded capitalist reproduction involves an expansion of the quantities of constant capital, variable capital, commodity capital as well as money material. During a war economy, such as occurred during World Wars I and II (4), the capitalists extend credit to their warring governments hoping that their government will be victorious in the war.

If their government is defeated, the value of the war bonds it issued will be effectively wiped out by inflation or be repudiated altogether. This is one of the reasons why the German capitalists supported the Nazi government until almost the end of the war, even after it had became virtually certain that Nazi Germany was a lost cause. The German capitalists realized that unless the Nazis somehow won the war they would lose a whole lot of capital—which they indeed did when the German Reich was defeated and the value of the Third Reich war bonds was wiped out.

If the capitalists of a warring nation lose all hope that their government will be victorious, they will move to preserve as much as possible of the value of their capital by selling off their government bonds for paper money, which they will then convert either into currencies of the victorious capitalist countries or into gold. These actions cause the devaluation of the currencies that lead to runaway inflation while interest rates soar.

As for their real capital, the capitalists of a country facing defeat will try to preserve its value by increasingly taking it out of production until the war is over, when they hope conditions for normal expanded capitalist reproduction will return. The increasing dumping of government bonds by the capitalists who have lost all hope in the victory of their government combined with the withdrawal of real capital from production causes the entire war economy to fall apart, hastening the inevitable military defeat.

This is exactly what happened in Russia just before and during the Russian Revolution of 1917. If a Russian capitalist couldn't escape from revolutionary Russia and somehow succeeded in transforming his government bonds into potential money capital in the form of gold bars or coins buried in the ground, he and his descendants would have had to wait until the Gorbachev-Yeltsin counterrevolution finally restored the conditions of expanded capitalist reproduction more than 80 years later.

In the case of the capitalists of (West) Germany, the wait was much shorter, and normal conditions of expanded capitalist reproduction were restored as soon as the mark was "stabilized" with the currency reform of 1948. (5) Capitalist expanded reproduction then resumed with great vigor after years of crisis and war economy. This is what the (West) German "economic miracle" amounted to.

Kalecki accepted the view that there were no *economic* barriers to full employment under the capitalist system. However, this raised another question. Why if the solution to unemployment was so easily within their grasp—long before Keynes's demands had been raised to fight unemployment through government spending and monetary inflation—hadn't capitalist governments actually pursued "full employment" policies? And why did the capitalist governments allow mass unemployment to grow to such an extent in the 1930s that it threatened the very existence of the capitalist system?

Kalecki's answer

"The maintenance of full employment," Kalecki wrote, "would cause social and political changes which would give a new impetus to the opposition of the business leaders." What would that impetus be? "Under a regime of permanent full employment, the 'sack' would cease to play its role as a 'disciplinary' measure. The social position of the boss would be undermined, and the self-assurance and class-consciousness of the working class would grow."

Kalecki's point about the class-consciousness of the workers growing under full-employment capitalism is open to question. True, full employment would encourage more strikes and greatly strengthen the unions. These struggles would tend to increase the purely economic class struggle of the workers. But experience has also shown that periods characterized by prolonged prosperity with low unemployment, though they have indeed encouraged the growth of trade unions and the workers' political parties, have also led to the growth of conservative politics among the workers and their organizations.

One historical example of this would be the steady growth of "reformism"—the rejection of revolutionary politics—within the parties of the Second International during the great capitalist prosperity that occurred between 1896 and the outbreak of World War I. Another example would be the growth of conservatism among the trade unions and the workers' political parties during the wave of capitalist prosperity after World War II.

If the material conditions of the organized workers are steadily improving as they generally were during both the pre-World War I "boom" and the post-World War II "boom," workers see little reason to fight for the revolutionary transformation of capitalism into socialism, because the current system is "delivering the goods."

But there is another far more fundamental problem with Kalecki's analysis. "Profits would be higher," Kalecki wrote, "under a regime of full employment than they are on the average under laissez-faire, and even the rise in wage rates resulting from the stronger bargaining power of the workers is *less likely to reduce profits than to increase prices, and thus adversely affects only the rentier interests*." [emphasis added—SW].

The capitalist class is not interested in oppressing the workers for the sake of oppressing the workers. Capitalists as capitalists are interested in only one thing, increasing the rate and the mass

of profit. This is not because they are as individuals necessarily greedy or personally nasty but because they are forced under pain of ruin to constantly *increase* their profit. If they fail to increase their profit, they will sooner or later lose their capital.

The bankruptcy and collapse of the "old" General Motors shows that this applies not only to small capitalists but the very largest, most powerful monopoly capitalists as well. For many, many decades the stockholders in General Motors, which long reigned as the largest industrial corporation in the world, were progressively enriched by their ownership of "blue chip" General Motors stock. But eventually, in 2009, those investors in General Motors who were not smart enough to bail out in time saw their investment in General Motors stock wiped out. Therefore, no matter how rich and profitable a monopoly capitalist corporation is at any point in time, it must increase its profits still *more* or it will share the fate of the old General Motors.

In order to achieve this, for the capitalists, absolutely necessary growth in profits, the capitalists have no alternative but to increase the rate of surplus value—or what comes to exactly the same thing, the amount of time the workers work without pay for the capitalists rather than for themselves. If full employment policies actually increased the profits of the capitalists like Kalecki believed, not only would the capitalists support such policies, they would *insist* on such policies. We would be living in a very different world.

Kalecki correctly realized that the capitalists desired unemployment, but he couldn't understand why this was so. He sensed that the realization of the value of commodities was a problem, but he failed to understand exactly how the value of commodities is actually realized. He wrongly believed that the capitalist government could always guarantee the realization of the value of commodities if only it were willing to borrow, print and spend money right up to "full employment."

Under "full employment," Kalecki imagined that all the surplus value produced by the working class would be fully realized, maximizing the mass and rate of profit. Kalecki failed to fully appreciate that surplus value must be produced before it can be realized. In this respect, Kalecki's analysis is inferior not only to that of Marx but even to that of Ricardo. Ricardo, since he accepted Say's Law, believed that the problem of realizing the value and surplus value embodied in commodities did not exist.

But unlike Kalecki, Ricardo understood that, everything else remaining equal, higher wages will mean lower profits and *not* higher prices. (6) And as I mentioned above, economic history since World War II—especially the history of interest rates and not just the theoretical arguments of Ricardo and Marx—have thoroughly refuted Kalecki's economic arguments in practice. And it is practice that is decisive.

Why then did the editors of *Mrzine* choose to republish Kalecki's badly flawed article at this particular time? Is it because they are interested in the history of 20th century economic thought? There would be no objection to republishing Kalecki at this time if that were indeed their intention. We should and indeed must examine the mistakes of earlier generations of socialists if we are to avoid repeating them in the future. But could it be that they republished Kalecki's badly mistaken article because it is in line with their hopes of a future "new New Deal"?

I am afraid the latter is the case.

In a universe far far away

Some theoretical physicists speculate that the basic laws of physics may be different in other universes. Suppose in one of these far away universes not only the laws of physics but the laws of economics are different. If we lived in a universe where "Kaleckian" rather than "Marxist" economic laws prevailed, how would this affect the relationship between the classes and thus politics itself?

Suppose that the capitalists in our alternate universe were still driven by their need to maximize both the mass and the rate of profit. But the laws that govern our alternative universe capitalism would not only allow capitalist governments to achieve long-term full employment but in this universe full employment would actually maximize profits. To maximize capitalist profits, however, the governments would have to follow full employment policies both in terms of fiscal as well as monetary policy.

Freed from the dead weight of the reserve army of the unemployed, the workers could only gain by full employment policies. But remember, in this universe so would the industrial and commercial capitalists, since their profits would be maximized only when the government pursues a full employment policy. Only the "rentier interests," that section of the money capitalists who live off

fixed interest income, would lose out because full employment would probably lead to higher prices caused by wage increases, eroding their fixed-interest income.

But in our Kaleckian universe, not all the money capitalists actually lose under a regime of "full employment." All the money capitalists have to do to benefit from full employment is to invest in stocks rather than fixed-interest bonds. Remember, in the long run the price of stocks—leaving aside the swings due to speculation—are determined by capitalization of dividend income at the prevailing long-term rate of interest. Therefore, only those very timid money capitalists who don't want to take the risk of owning stocks as opposed to fixed-income bonds would actually suffer under "full employment" monopoly capitalism. Here the Kaleckian laws of economics come to the rescue of the money capitalists.

As long as governments follow the correct Keynesian full employment policies, there should be no major economic crises. The lack of major economic crises would greatly *reduce the risk associated in investing in common stocks*. The above fits right into John Bellamy Foster's analysis of what he calls "monopoly finance capital"—except that he applies it to our universe rather than our hypothetical far far away universe.

The problem as Foster sees it is that a section of the capitalist class, the "monopoly *finance capitalists*" (7), as opposed to monopoly *industrial* and monopoly *commercial* capitalists, have an interest in opposing "full employment." Presumably, the monopoly finance capitalists oppose full employment because with full employment the higher rate of inflation that would likely be the consequence will erode their real interest income.

Applying "Kaleckian" economics, we find that the interests of "the monopoly finance capitalists" conflict not only with those of the workers when it comes to government economic policies of full employment but also with those of the monopoly—as well as the non-monopoly—industrial and commercial capitalists. Therefore, according to "Kaleckian" economics, unlike the "monopoly finance capitalists" the other capitalists share an interest with the workers in "full employment," which can be achieved if the government follows the correct "Keynesian" full employment policies.

In Europe—or the equivalent of Europe in our far far away universe—this might take the political form of a coalition of labor parties—whether Labor, Social Democratic or the Communist parties that were once members of the Third International—with those bourgeois parties that represent the interests of the industrial and monopoly commercial capitalists. Since the 1930s, such governments have been called Popular Front or People's Front governments.

In the U.S., the same alliance would most likely find expression through the pro-New Deal wing of the Democratic Party. *Monthly Review* had indeed hoped that the election of the Democratic Obama and a Democratic Congress would usher in the hoped-for new New Deal. But as we have seen, no "New Deal" materialized, leading to massive Republican victories in the most recent U.S. elections.

But if Kalecki's economic analysis were correct, there would at least be a possibility that pro-New Deal forces within the Democratic party representing a coalition of powerful corporate interests—both industrial and commercial capitalists—with a resurgent trade union movement would be able to defeat the pro-monopoly finance capital faction within the Democratic Party. Then we might hope that the next time the Democrats are in control of both the executive and legislative branches of the U.S. government, they would actually follow full employment policies that would wipe out the scourge of mass unemployment once and for all.

If we lived in a "Kaleckian" universe, there would be no reason why this would not be a perfectly realistic prospect. In this case, John Bellamy Foster's desire to win the university economics departments away from the neo-liberalism that has dominated them since the 1970s to Keynesian economics would make perfect sense.

While individuals can surprise us—and they can sometimes become "traitors to their class" as happened among more than one young economist in the 1930s, including Paul Sweezy—the prospects of winning over the leading professional economists who dominate university economics departments to Marxism do not appear at all promising. These strongly pro-capitalist professors who control the hiring and granting of tenure in university economics departments are both by their social background and personal financial interests strongly bound to the capitalist system.

But if we could convince them—or at least a considerable number of them—that Keynesian-style government polices could not only deliver and maintain full employment but in addition that full employment would *increase* and not decrease profits, their ears would prick up. For example, we might suggest to these professors that instead of investing in bonds with fixed returns they shift

their portfolios toward common stocks. If they do this, even if higher money wages lead to inflation they would be more than compensated through higher dividends and the consequent rising values of their stock portfolios.

Therefore, if Kaleckian economics were true in our universe, the support of most university economics professors for neo-liberal as opposed to full employment Keynesian economics represents not their real material interest but mere ideological prejudice and honest mistakes. We must simply enlighten them on the brilliance and correctness of the economic ideas of John Maynard Keynes as opposed to von Hayek, von Mises, Milton Friedman et al.

This is indeed what Foster has been doing in his *Monthly Review* articles since the crisis broke out in 2007. As more and more professional economists are won over to Keynesian economics, they will in turn help leaders of the industrial and commercial corporations as well as the owners of smaller industrial and commercial enterprises to understand that their profit interests actually lie not with "neo-liberal" policies but rather with a new full employment New Deal.

Once the new New Deal and its counterparts in other capitalist countries eliminate unemployment through a skillful application of applied Keynesian economics, the desperate competition for jobs among the workers would disappear. And much of the racism and chauvinism that such competition for work breeds would disappear with it. We strike a major blow against racism.

Just as importantly, the danger of war among the capitalist countries would also be vastly reduced if not eliminated altogether. This would apply both to the wars of today that involve wars of imperialist countries—mostly the United States—against oppressed capitalist countries, but also against the danger of an eventual revival of warfare among the imperialist countries themselves. (8) Neither the developed nor the "developing" nations would have to fear that the accelerated development of other capitalist nations would mean a loss of markets for their own capitalists and thus an end to their own prospects for further capitalist economic development.

If "Kaleckian" economics were true, such full employment policies would be well within reach. We do not have to overthrow the capitalist class but simply elect more enlightened capitalist governments. Once this is achieved, a new day will dawn. It won't be socialism. There will still be the exploitation of wage labor by private capital, but it will be a vast improvement over what exists today. If such a change is really possible—and if "Kaleckian economics" is correct—this is what we must actually fight for today.

Kalecki's analysis and the prospects for socialism

According to historical materialism, socialism cannot come into existence until capitalism has exhausted all its historic possibilities. If a full employment Keynesian capitalism is possible, the possibilities of capitalism are far from exhausted. We can still support socialism as a personal ideal, but the struggle for full employment under capitalism is the real struggle of our time. Socialism will have to be left for a future that will arrive when and *if* "full employment monopoly capitalism" finally exhausts its potential for development. Perhaps this will be true when global warming reaches the stage where oceans are approaching the boiling point and threaten to transform our now living world into another version of the lifeless planet Venus. But that will be a struggle for another time and another generation.

The real solution to unemployment in our universe

Given that in our universe the economics of Marx apply and not those of Kalecki, how can the workers and their organizations—workers' parties and the trade unions—effectively fight the global unemployment crisis?

I will not attempt to write a program on how to struggle against unemployment. That is the job of the workers' parties and unions and their duly elected conventions and congresses. Here I will confine myself to some general principles that are based on Marx's economic discoveries and my blog on crisis theory.

Virtually all non-Marxist economists agree that the key to reducing unemployment is to increase the *rate of profit* of the capitalists. Where the economists differ is how to achieve the necessary increase in profits. Progressive Keynesian economists say the key to making increased employment profitable to the capitalists is to increase the purchasing power of the mass of the people. That, they explain, will make it *profitable for the capitalists* to hire more workers until full employment is achieved.

Reactionary bourgeois economists, now often called "neo-liberals," hold that the only way to increase profits is through union busting, wage cutting, cutting taxes on the capitalists, dismantling

public benefits, and attacking and destroying the right of government workers to bargain collectively. This is the program that Wisconsin governor Scott Walker and the Republican majority in the Wisconsin state legislature are attempting to implement. When wages and benefits are lowered sufficiently, the neo-liberal economists claim, it will finally become profitable for the capitalists to hire the unemployed, leading to full employment.

Keynes himself actually had a foot in both camps. He emphasized that it was necessary to increase mass purchasing power in order to achieve "reasonably full employment." But he also agreed that it was necessary to reduce real as opposed to nominal wages, which he thought could best be achieved through policies that encourage a rising cost of living that reduces real wages.

The capitalists like to present themselves as job creators. Yet the exact opposite is true. Throughout the capitalist world, there are many factories and other workplaces that are either idle or would need many more workers to operate if they were producing at their full potential. It is actually the capitalists as a class who are standing in the way of the unemployed being put to work.

Because it is not profitable for the capitalists to actually put the unemployed to work, the unemployed remain unemployed. This is not due to the ill will of individual capitalists. It is the inevitable consequence of the economic laws that govern the capitalist system. This is why John Bellamy Foster's attempts to win over university economics departments to Keynesian economics as opposed to neo-liberalism is unlikely to help the unemployed very much if at all, despite Foster's good intentions.

The working class if it is to fight unemployment effectively must reject the whole idea *that increased profits for the capitalists are the necessary pre-condition to achieve full employment*. Instead, we have to demand employment for the unemployed *whether or not* it is profitable for the capitalists.

If the capitalists increase employment because it is profitable, fine. But if it isn't profitable for the capitalists to put the unemployed to work, that doesn't in any way reduce the needs of the unemployed for employment. So it is the capitalist minority that should yield to the needs of the great majority. The workers will also be able to provide jobs for former capitalists who will need jobs themselves once they are no longer capitalists. No human being should suffer unemployment and its miseries ever again.

Public works

This does not mean that we oppose partial measures by capitalist governments that create additional employment, nor should we fail to point out that if capitalist governments were to spend more money on public works programs rather than wars and tax cuts for the wealthy, the level of unemployment would fall. In doing this, we should always insist that the cost of these programs fall on those who are able to pay, the rich, and not the workers or even the "middle class."

Cutting the workweek with no reduction in pay

In the past, workers' parties and trade unions have often demanded that the working week be shortened with no cut in pay. At times, these struggles have been victorious. In Volume I of "Capital," Marx himself described the struggle of the English workers for a shorter working day in the 19th century.

The most radical form of the demand to shorten the workweek to fight unemployment is called the sliding scale of hours and wages. The sliding scale of wages refers to increasing wages in step with rises in the cost of living, an especially important measure when the cost of living is rising sharply, as it is now thanks to "Keynesian monetary" policies of the Federal Reserve.

If the productivity of human labor has reached the point that less labor is necessary to meet all reasonable human needs, the answer is to spread out the now reduced amount of work that needs to be done by cutting the workweek with no cut in pay. Indeed, Marx, Engels and other Marxists over the years have looked forward to a future when the workday will be so shortened that work will cease to be a necessary evil but instead become the most important human need. Then what Marx in the "Critique of the Gotha Program" called the "enslaving division of labor" will at last be overcome.

The need for workers' governments

But even a shorter workweek with no cut in pay combined with the most progressive public works programs financed by progressive taxation cannot offer a lasting solution to the inevitable recurrence of unemployment-breeding general crises of overproduction as long as the private

appropriation of the products—private ownership of the means of production—is combined with today's massively socialized production.

To abolish crises and their associated unemployment, we must tackle the task of transforming capitalist production into socialist production. The absolute pre-condition for this necessary economic revolution is the transfer of political power from the rich minority to the working-class majority. Or as Marx and Engels put it in the "Communist Manifesto," we must win the battle for democracy.

In this struggle, we cannot expect to find allies among significant layers of the capitalist class. (9) With important individual exceptions, all capitalists, whether money capitalists or industrial or commercial capitalists, will defend the system that allows them to live in great luxury without having to work.

To break the power of money over politics, the working class and its allies among the poor of both city and countryside must counter the power of money with the power of organization. This growing organization of the working class must lead to the creation of governments of the workers and their allies.

A warning

Hopefully, these governments can be created in a peaceful democratic way. But experience has indicated that rather than give up their political power and the economic system that allows them to live in great luxury without working, the capitalist ruling classes will attempt to organize "slaveholders' rebellions." (10). Unless workers' governments deal with such rebellions in a decisive way, they will be overthrown and the scourges of unemployment crises along with the other evils of capitalism will continue.

Notes

Part 1

1 John Maynard Keynes was himself a gay man.

2 Economic liberals are free-market economists who advocate a minimal role for the state in economic affairs. In its purest form, economic liberalism would limit the state to defending private property in the means of production and enforcing contracts.

In the era after Keynes, neoliberals such as the late University of Chicago economics professor Milton Friedman revived the economic liberals' advocacy of a minimal economic role for the state.

3 The U.S. federal government is organized under the 1789 Constitution as amended. It is one of the most archaic constitutions in the world.

Unlike modern constitutions, it gives equal power to the Senate, or upper chamber, and the lower chamber, the House of Representatives. The Senate is not a democratic institution nor was it designed to be. Each U.S. state has two senators regardless of population. Congresspeople serve two-year terms. Therefore, every two years, the entire House of Representatives is up for reelection. Senators serve six-year terms. Therefore, every two years only one-third of the Senate is up for reelection.

For this reason it is far more likely that the Republicans will win a majority in the House of Representatives, where all the representatives are up for reelection, than in the Senate, where only one-third of the Senators face reelection.

4 The U.S. far-rightists, who are generally supporters of the Republican Party, have claimed falsely that President Obama is actually a Muslim.

5 Grand juries are an example of the archaic nature of the U.S. Constitution. They hark back to times when private citizens, not just public prosecutors, could file criminal charges against their fellow citizens.

Grand juries, unlike petit juries, do not have the power to convict people of crimes. But they do have the power to indict—that is, charge—people with crimes. Their deliberations are carried out in secret behind closed doors. Grand juries have broad powers to subpoena witnesses. Witnesses called to testify before a grand jury *do not have a right* to be accompanied by a lawyer. Only the prosecuting attorney besides the grand jurors themselves is present.

While U.S residents retain their famous Fifth Amendment right not to testify against themselves when they testify before a grand jury, the prosecutor can offer a witness immunity against prosecution for the alleged crime under investigation. In that case, the grand jury has the right to jail a witness if he or she then refuses to testify by holding such a witness in "civil contempt." Though such witnesses have not been convicted of a crime and acquire no criminal record for contempt of the grand jury, they can be jailed for the life of the grand jury, which can last for more than a year.

It is a favorite tactic of the FBI and the federal prosecutors to subpoena people to testify before a grand jury and then offer them immunity against prosecution. The subpoenaed persons then have a choice of testifying in secret against their associates or face being thrown in jail for a prolonged period for contempt if they refuse.

Since the U.S. Constitution requires that the government obtain an indictment from a grand jury before it can prosecute a person for committing a crime, it would require a constitutional amendment to abolish grand juries at the federal level. The Democrats and Republicans, who between themselves completely monopolize Congress and the state legislatures, have shown no signs of moving to pass such an amendment, which would bring the U.S judicial system up to world standards by abolishing grand juries.

6 Though U.S. progressives who romanticize Roosevelt's New Deal would like to forget it, the U.S. Federal Bureau of Investigation acquired its current name and much of its power in 1935 under Franklin D. Roosevelt. In those days, the FBI director was the ultra-racist J. Edgar Hoover, who later hounded virtually every African American leader, including Martin Luther King. The FBI also infiltrated with spies and agent provocateurs virtually all left-of-center organizations in the United States.

In addition, Hoover, who served until his death in 1971, kept files on virtually everybody in public life and was able to blackmail virtually anybody in government, including U.S. presidents. In this way, he made himself FBI director for life. To prevent this from happening again, FBI directors are now limited to 10-year terms. Despite his infamous record, the FBI headquarters in Washington, D.C., "proudly" bears the name "J. Edgar Hoover Building," and various proposals to remove Hoover's name from the building have gone nowhere.

7 In my main posts, I provide evidence that the upturn that followed Roosevelt's assumption of office in March 1933 also had much more to do with the operations of the industrial cycle than the policies of the new administration.

Part 2

1 I would not dwell on the weaknesses of "Monopoly Capital," written a half century ago when economic and political conditions were very different—and which in my opinion did not represent Sweezy's best work—if Foster himself didn't constantly refer back to it and treat it as a kind of "bible." In contrast, Sweezy himself did not

hesitate to criticize "Monopoly Capital" when he thought it was appropriate. For example, Sweezy expressed regret with the decision he and Baran made to replace the term surplus value, the most important category of all Marxist economics, with the term "the surplus." Foster himself has wavered between using the terms "the surplus" and "surplus value," though he has shown a welcome tendency in his most recent writing to return to "surplus value."

2 To be fair to the Monthly Review School, this has been a weakness in Marxist writings as a whole since the death of Engels in 1895. Why is this so? Marx was interested above all in the nature and origins of surplus value. He showed that profit, including interest and rents and their derivative incomes, is produced by the unpaid labor of the working class even if all commodities, including the commodity labor power, sell at their values. From the viewpoint of the workers who actually produce the surplus value, exactly how the surplus value is divided up among the various groups of exploiters—industrial and commercial capitalists, money capitalist, landlords, and the state machine and so forth—after it has been produced is a secondary question. The chief subject of "Capital" is the production of surplus value and not the realization of surplus value. If you don't understand how surplus value is produced, you cannot possibly understand how it is realized.

However, to say a question is secondary is not to say that it is unimportant. Industrial capitalists like the pro-Nazi, anti-semitic Henry Ford have sometimes attempted to appeal to the workers and the mass of people in general by attacking the parasitic money lenders who live off interest as opposed to the "producers" such as themselves. Marx's theory of surplus value cut right through these types of arguments. It showed that the industrial capitalists—such as Henry Ford—are just as much exploiters of the working people and appropriators and consumers of surplus value as are the bankers and other money capitalists.

The German working class—but not the urban middle classes or the German peasantry—trained in the basics of Marxist economics by the work of first the German Social Democratic Party when it was a Marxist party and then the German Communist Party proved largely resistant to the Nazi claims about "Jewish" money capitalists but not the "Aryan" German industrial capitalists being the chief enemies of the working people of Germany.

This is only one example from history, and we are seeing similar demagoguery today often aimed at Muslims and can expect much more as the current social crisis that began with the 2007-09 economic crisis continues to intensify. In combating this type of demagoguery, Marx's theory of surplus value remains our main weapon.

Marx had seen "Capital"—all volumes—as simply a portion of a multi-book critique of political economy. Marx did indeed discuss the division of profit into profit of enterprise and interest in Volume III of "Capital." But Volume III was not published in Marx's lifetime and remained an unfinished work. Therefore, it had vastly less influence in the classical workers' movement than Volume I of "Capital."

Unfortunately, Marx did not live to complete his entire *critique of political economy*, the final part of which would have dealt with capitalist crises. For crisis theory, the splitting of profit into the profit of enterprise and interest is of crucial importance. Any attempt to analyze crises and the capitalist economic stagnation bred by crises that ignores this question is much like attempting to drive an automobile on two wheels.

In dealing with these questions, some bourgeois economists like Keynes, who had no interest or desire to explore the basic nature of surplus value, have analyzed the role of the rate of interest and its role in capitalist crises and stagnation, a question that has been largely ignored by Marxists until now. I believe, however, that we can do a lot better than Keynes could do in analyzing the division of profit into profit of enterprise and interest if we actually understand the nature of surplus value. Unlike Keynes, we have nothing to hide and can afford to build on a solid foundation.

3 The division between the economic liberals versus the supporters of a possibility of a general glut of commodities should not be confused with the division between the classical economists who studied the real laws of capitalist economy and what Marx called the vulgar economists. The vulgar economists were the *hired guns* of the ruling classes—capitalists and landowners—who limited themselves to studying only the surface appearances. The division about the possibility of a general glut cut across the division between the genuine classical economists and the vulgar economists.

According to Marx, J. B. Say was very much a vulgar economist, but Ricardo brought classical political economy to its highest point. This was despite Ricardo's grave error in denying the possibility of a generalized overproduction of commodities. Marx also grouped Sismondi, who before Malthus drew attention to the danger of crises of generalized overproduction, with the classical economists, while he considered Malthus—who was Keynes's real hero—to be very much a vulgar economist.

Marx expresses a certain frustration with Ricardo when he supported Say's Law and complains that this was "unworthy of Ricardo." Ricardo probably supported the views of Say because Ricardo was an advocate of the most complete development of the forces of production possible—production for the sake of production, as Marx put it—and was extremely reluctant to admit that capitalism itself could be a barrier to production. Malthus, on the contrary, was more than willing to hold back the development of Britain's industry if it would strengthen the position of the landlord class that Malthus represented.

4 Ricardo was an opponent of the Bank of England and its inflationary policies under the Bank Restriction act of 1797, which allowed the Bank of England to issue paper notes inconvertible into gold much like central banks do today. Ricardo pointed out that the inflationary depreciation of the bank's notes against gold disturbed the relationship between creditors and debtors. He therefore favored a return to the gold standard as soon as

possible or, what came to exactly the same thing, termination of the bank's ability to issue paper money inconvertible into gold.

5 The neoliberals led by Milton Friedman revived the quantity theory of money in the post-Keynes, post-Depression era in the form of their so-called "monetarist doctrine." But after the Depression, the quantity theory of money was very much "damaged goods," so Friedman was forced to modify and weaken the theory considerably to make it seem even superficially plausible.

Retreating from the original quantity theory of money, Friedman admitted that fluctuations in the quantity of money had a considerable impact on production and employment in the short run—often dwarfing the impact the changes in the quantity of money had on the level of nominal prices and wages. Indeed, Friedman very famously claimed the Depression of the 1930s was caused by the failure of the U.S. Federal Reserve System to combat the contraction of the money supply by one-third between 1929 and 1933 and not by any basic contradictions of the capitalist system whose existence he denied. Friedman held that the Depression could easily have been avoided if the Federal Reserve System had had any idea of what it was doing.

But Friedman claimed that the quantity theory of money was still true, because *in the long run* fluctuations in the rate of growth of money relative to commodities do not affect output but only nominal wages and prices, just like the classical quantity theory of money claimed.

Friedman himself pointed out that the term "monetarism" applied to his theories was misleading. The term "monetarism" implied, at least to the lay public, that Friedman applied a special importance to money. But Friedman explained that this is quite misleading, since as an economic (neo)liberal he held that in the long run changes in the rate of growth in the quantity of money relative to the rate of growth in the quantity of commodities actually don't matter at all as far the growth in real output—real wealth—is concerned. Friedman while admitting and even stressing that money was not "neutral" in the short run insisted that it was neutral in the long run.

Friedman was attempting to return to the views of the original marginalists that held in contrast to both Marx and Keynes that capitalism was a stable economic system. According to Friedman, capitalism was only seriously destabilized by the short-term unexpected fluctuations in the quantity of money, which he blamed on interference by governmental "monetary authorities." Some extreme neoliberal economists such as Robert Lucas and the "rationalist expectations school" have tried to out-Friedman Friedman by claiming that capitalism is stable even if the quantity of money fluctuates violently and unexpectedly, instead blaming economic crises such as the 1930s Depression on alleged excessive taxation by the government.

6 About the only thing that Keynes openly borrowed from Marx in the "General Theory" was Marx's concept of the classical economists. However, Keynes showed no real understanding of what Marx meant by the classical economists as opposed to the vulgar economists—Keynes himself, despite some genuine insights, was very much in the tradition of the *vulgar economists*. Hence his admiration for Malthus—and his extension of the concept of the "classical economists" to include the marginalists. Marx, in contrast, would have certainly classified the marginalists with the vulgar economists as Engels did in a few remarks on marginalism during the final years of his life.

7 I would also add the theory of comparative advantage, about the only part of Ricardo's work that is still taught to college economics students today.

8 Except for the "Austrian" branch of marginalism, which prefers to argue in terms of ordinary language as opposed to mathematics and thus appeals to right-wing "non-mathematical" intellectuals.

Part 3

1 In North America during the colonial period, the commodity labor power was extremely scarce. Newly arrived colonists found lots of free land available. All they had to do was drive off or kill off the native peoples. Therefore, all kinds of forced labor such as indentured servitude and of course African slavery flourished not only in the South but even in the North. It took several centuries before enough "free wage labor" was available to make these various forms of semi-slave and outright slave labor unnecessary for the white settlers. Only when a considerable reserve industrial army was established and could be tapped by the exploiters on demand was it possible for bourgeois society to depend entirely or almost entirely on "free labor."

2 When our present-day (bourgeois) economists talk about "full employment," it turns out with few exceptions that they really mean a situation of an optimal level of unemployment for the capitalists. Naturally, the capitalists don't like deep depressions that make it impossible to realize in money form the surplus value they can wring out of the working class. In addition, extreme levels of unemployment raise the possibility that large sectors of society will turn against the capitalist system increasing the danger from the viewpoint of the capitalists that their political rule will be overthrown and that they will be stripped of their capital.

But the capitalists and their economists also do not like a situation where unemployment falls to the point that the workers are able to win higher wages and better working conditions that threaten to lower the all-important rate of surplus value. Therefore, most economists define as "full employment" a situation where many millions of workers who are actively seeking work are unemployed and where many more millions of people would work if they had any realistic prospects of finding jobs.

The (bourgeois) economists have even coined a term, "overemployment," for a situation where unemployment, or in Marx's terminology the reserve army of the unemployed, has fallen below the level that is ideal for the

capitalists. When official unemployment in the U.S. briefly fell below 4 percent near the end of the Clinton administration, economists were surprised that wages were not soaring, since most of the bourgeois economists were convinced that an official unemployment rate below 5 or 6 percent would constitute "overemployment."

Beyond that point, they believed wages would start to rise rapidly causing the rate of surplus value to fall. The bourgeois economists don't put it exactly that way of course! But in the U.S., wages continued to be under pressure even at the peak of the late Clinton era "prosperity" with official unemployment less than 4 percent. What this really shows is that the number of people who wanted to work but were stuck in the lower levels of the reserve army of labor that never appears in the unemployment statistics was far greater than the bourgeois economists had realized.

3 Many Marxists, mistakenly in my opinion, believe that Marx was talking about the actual mechanism of the industrial cycle when he wrote about the "absolute overproduction of capital." But Marx makes clear in many places that real-world cyclical economic crises are crises of the *relative* overproduction of commodities and consequently of the productive capital that is necessary to produce them, not the absolute overproduction of capital. A crisis of *relative* overproduction ends the upswing in the industrial cycle long before it leads to an *absolute* overproduction of capital.

4 It is the very lack of realization problems that would bring about the absolute overproduction of capital in the first place.

5 Unlike Marx, the marginalist economists make no distinction between labor and labor power.

6 The mariginalists like to use the term "goods" rather than commodities. Indeed, they have no concept of commodities as representing a social relation of production where the private labor of individuals can be validated as a portion of social labor only through exchange. Therefore, in explaining marginalist theory, I too will use the term "goods" to indicate the complete lack of any conception by the marginalists of capitalism as a contradictory and therefore transitory mode of production.

7 In the sense that they came from Austria and they also were the leaders of the Austrian School of economics, which was first developed in Austria.

8 All the same, like Adam Smith, Ricardo, Marx and even the early marginalists, Keynes also believed that the tendency of the rate of profit would be downward as capitalism developed. One of the first economists to express doubts about the downward movement of the rate of profit was Paul Sweezy, the future founder of the Monthly Review School. In his "Theory of Capitalist Development," published in 1942, unlike in his better-known book "Monopoly Capital," which he co-authored with Paul Baran, Sweezy analyzed capitalism in terms of the categories developed by Marx in "Capital." From a Marxist point of view, this work is in my opinion far more interesting than "Monopoly Capital," though it is rarely referred to by the Monthly Review writers.

In this early work, Sweezy noted that in Marx's illustrations of the law of the tendency of the rate of profit to fall, he assumed a constant rate of surplus value. Sweezy believed, however, like most Marxists have, that the rate of surplus value—the ratio of unpaid to paid labor—rises with the development of capitalism. He also explained that the organic composition does not rise nearly as fast as what Marx called the "technical composition of capital," because the elements that make up constant capital become devalued with the advance of labor productivity.

In his "Theory of Capitalist Development," Sweezy drew the conclusion that the actual long-term trend of the rate of profit was indeterminate rather then definitely downward, though he accepted the possibility that the rate of profit might trend downward.

Later in "Monopoly Capital," Sweezy (and Baran) relegated the whole question of a falling tendency of the rate of profit to the bygone era of "competitive capitalism." In "Monopoly Capitalism," Baran and Sweezy claimed that the growing power of the giant monopoly corporations was leading to a tendency of the surplus—or the potential profit—to rise due to their ever-growing monopoly pricing power. The problem that the giant monopolies now faced was to actually realize these potential profits in light of the difficulty of finding buyers for commodities sold at ever higher monopoly prices. In my opinion, this concept of the tendency of the surplus to rise comes dangerously close to the old mercantilist doctrine of profit upon alienation, surplus value generated in the sphere of circulation, a view sharply criticized by Marx..

9 How much Keynes hated gold is shown by his reaction to U.S. President Franklin D. Roosevelt's determination to push ahead with devaluation of the U.S. dollar even though it blew up the International Monetary Conference of 1933. Due to the financial crisis of 1931, the Bank of England was forced to suspend the gold standard and allow the British pound to fall not only against gold but against other currencies including the U.S. dollar that remained on gold. This had given the British capitalists a temporary competitive advantage over their U.S. and other rivals. Roosevelt's decision to devalue the U.S. dollar in 1933 was viewed as aimed at wiping out the temporary advantage that the British capitalists had gained in international competition by "competitively" devaluing the pound.

Normally, Keynes would have been expected to be sharply critical of a move by a foreign government that in any way undermined the competitive interest of British capitalism. But Keynes instead hailed Roosevelt's dollar devaluation decision because he hoped that it would end the international gold standard once and for all and would free central banks, including the Bank of England, to issue the amount of currency that would be necessary to restore "full employment" without having to worry about maintaining the convertibility of their currencies into gold.

10 What these historians can't explain is why the Depression did not occur before 1914 when the international gold standard was at its peak instead of only after World War I when it was already severely undermined.

11 The Bank of England was and still is a corporation owned by its stock owners. Since 1946, the British government has been the sole owner of Bank of England stock. In the U.S., the Federal Reserve Board, which controls the Federal Reserve System, is a government agency, but the 12 Federal Reserve Banks that make up the Federal Reserve System are privately owned stock corporations, with most of the stock owned by the commercial banks that operate in each Federal Reserve district.

In "Capital," Marx noted that the Bank of England was a peculiar mixture of private and public. It was hard to know where the state power ended and private property began. Though in Marx's day the Bank of England was in theory a privately owned institution, in reality it already had a special relationship with the government—holding the government cash reserves in its vaults. As such, it was obliged to put its function in guaranteeing the gold standard while attempting to stabilize the British economy above its corporate drive to maximize its own profit.

While today the Bank of England like most central banks is owned by the government, the Federal Reserve System, which under the dollar system operates in effect as the world central bank, remains a peculiar mixture of private and public where it is often hard to see as was the case with the Bank of England in Marx's day exactly where private property ends and government authority begins.

12 The Monthly Review School is not a monolith and there have always been shades of difference among its adherents. While Paul Sweezy wrote relatively little about the production of surplus value, Harry Braverman, who joined the Monthly Review School during the 1950s, was a former trade unionist and concentrated in his writing on the exploitation of the workers. A case might also be made that Harry Magdoff was somewhat less of a "Keynesian" in his thinking than Sweezy was. Every Monthly Review writer has to be judged in his or her own light and not as a spokesperson of some "monolithic" Monthly Review School.

However, that said, the work of Paul Sweezy remains the point of reference for what is called the Monthly Review School, as John Bellamy Foster himself emphasizes.

13 After World War II, Paul Sweezy, however, supported *all* revolutionary movements and opposed *all* pro-imperialist counterrevolutionary ones with a consistency that was extremely rare on the socialist left, especially in the U.S., the center of world imperialism. In this we should all strive to emulate Paul Sweezy.

14 Foster himself, perhaps realizing that the Monthly Review School's highly Keynesian interpretation of Marxism seems to undermine the necessity and therefore the inevitability of socialism, has tried to make a case that socialism is necessary not so much because of the contradiction between the productive forces created by capitalism, on one side, and the social relations of production—capital—on the other, the traditional Marxist view, but rather the contradiction between the productive forces created by capitalism and the natural environment. Foster considers himself a green socialist. This, however, does not really answer the question of exactly how we will make the transition from a future Keynesian full-employment monopoly capitalism—assuming that is possible—to a socialist society.

Part 4

1 Incompetent industrial and commercial capitalists are eliminated through competition through a process akin to natural selection. So in the long run, we can assume that all surviving industrial and commercial capitalists are competent.

2 During the first 20 years after World War II, Keynesian stabilization policies and the needs of the gold-centered Bretton Woods System had not yet come into conflict, though it was inevitable that it was only a matter of time before they did. The international monetary crisis of the late 1960s and early 1970s meant that the collision between Bretton Woods and the Keynesian stabilization policy had arrived.

3 Nixon himself had lost the U.S. presidential election of 1960 to John F. Kennedy in part because the Federal Reserve System had been forced to raise interest rates to meet a gold drain. The rise in interest rates triggered a recessionary double dip in the U.S. economy during the 1960 election year. In addition, by apparently giving the Federal Reserve unlimited freedom to create dollars, the dumping of Bretton Woods seemed to the Nixon administration policymakers to greatly simplify the problems of financing the Vietnam War.

4 In the 40 years that have passed since the abandonment of the gold-centered Bretton Woods System, contrary to the predictions of Keynesian economists, economic growth has been persistently lower than under the Bretton Woods System, with far greater financial instability and deeper recessions.

5 Remember, this experiment was the attempt to eliminate the role of gold altogether in the international monetary system and issue paper currency that was not backed up by monetary gold.

Part 5

1 A sorry example of this is "The Political Economy of Post-crisis Global Capitalism," by Duncan Foley. (Paper prepared for the Economy and Society Conference at the University of Chicago, December 3-5, 2010)

2 In the pre-1914 era, recessions were more violent in the U.S. than in Europe because the U.S. lacked a central bank that could soften panics and reduce bank runs. The result was that the amplitude of the industrial cycle in the U.S. was greater than was the case in Britain and other European countries, though overall economic growth was greater in the U.S. than in Europe. However, unlike in the era of the "Keynesian" stabilization policies that

followed World War II, there was no attempt by governments or the central banks of the pre-1914 era to stop the general price level from falling when economic conditions favored such a fall. Such a policy would not have been compatible with the international gold standard.

3 Inflation continued in Germany in 1920-21. The German inflation escalated to hyperinflation in 1923, which was then halted by the stabilization of the German mark. After the inflation ended, Germany like Britain entered a period of much higher unemployment than had been experienced before 1914. Things got drastically worse when the super-crisis hit—which actually began in Germany in 1928 and didn't bottom out in that country until the summer of 1932. The beginning of economic recovery in 1932 came too late to prevent Hitler from coming to power in January 1933.

4 At the peak of the post-World War I industrial cycle in 1929, gold production, though it had recovered somewhat from its low point in 1922, was still well below the 1913 level even though world commodity prices and production were higher than had been the case in 1913. More money was needed as a means of circulation but less new money material was being produced to back the increased means of circulation.

This led to a considerable inflation of credit that increasingly replaced money in circulation during the prosperity, such as it was, of the 1920s. When the boom was replaced by recession in 1929, the result was a debt deflation centered in the United States that transformed the normal cyclical recession into the super-crisis of 1929-33, which represented the first phase of the Depression of the 1930s.

5 A traditional crisis begins when a drain of gold or foreign exchange reserves, or under a paper money system a sharp decline in the value of the currency, obliges the central bank to raise interest rates, which triggers the crisis. In 1937, the U.S. was facing the exact opposite of a gold drain. Instead of a drain on gold reserves, the U.S. was "experiencing a huge accumulation of gold in the U.S. Treasury and consequent explosion of reserves in the U.S. banking system.

This explosion of U.S. gold and banking reserves was due to both increased world gold production and the flight of money capital to the United States ahead of World War II. Officials of the Roosevelt government and the Federal Reserve System feared that this explosion of gold and bank reserves would lead to a runaway boom.

Contrary to historical mythology that no end to the Depression was in sight during the 1930s, the economic boom that finally occurred after World War II was therefore clearly coming into view as early as the mid-1930s.

Fearing the prospect of a runaway boom, the Roosevelt administration and the U.S. Federal Reserve System adopted a sharply deflationary fiscal and monetary policy. As regards fiscal policy, the regressive Social Security tax on wages had been introduced but there were as yet no Social Security payments. In addition, pointing to the rapidly increasing index of industrial production that had reached the levels of 1929 combined with falling unemployment, the administration moved to end the WPA public works programs that had directly employed a portion of the unemployed workers. For many young workers growing up in the Depression years, these WPA jobs were the only employment they had known.

As regards monetary policy, the Federal Reserve System did not raise its (re)discount rate, which was very low. However, it did raise bank reserve requirements, and the U.S. Treasury adopted a policy of sterilization of the gold inflow. For every dollar of gold that flowed into the U.S. Treasury, the U.S. sold a dollar of government bonds on the open market without spending the proceeds, which brought the rapid growth in bank reserves to a sudden halt.

Between them, the Roosevelt administration and the U.S. Federal Reserve System withdrew huge amounts of currency from circulation and then hoarded it in the U.S. Treasury. The result was the brief but violent recession of 1937-1938 that caused industrial production to plunge and unemployment to once again soar. In early 1938, alarmed by the violence of the recession that the administration's own policies had created, both the Roosevelt administration and the Federal Reserve System reversed their sharply deflationary policies.

As soon as this was done, the strong recovery from the super-crisis of 1929-33 resumed, though now from a much lower level. The effect of the strongly deflationary policies of 1937 was to artificially extend the Depression by several years.

Though the capitalist government and its monetary authority cannot prevent economic crises, it does have the power to create an artificial economic crisis by withdrawing currency from circulation if it wants to. In those days, progressives including the U.S. Communist Party, which strongly supported the New Deal as part of the Communist International's "anti-fascist Popular Front policy," were not inclined to make many criticisms of the Roosevelt administration.

Both the economic and political situation led to a widespread belief among

young economists who were coming under the influence of Keynes that U.S. and world capitalism had entered into a stage of "secular stagnation" that could only be counteracted by ever bigger doses of government spending in the future.

Why did the the Roosevelt administration follow such vicious recessionary policies in 1937-38? Officially, the reason was that the U.S. economy fueled by the unprecedented expansion of bank reserves was moving into a runaway boom that would end in new 1929-33 type super-crisis or worse. But in reality, the U.S. economy even at the height of the "prosperity" of 1937 was still a year or so away from a real boom. Unemployment was still in

double digits as it was calculated in those days, corporate investment was still very low, and industrial production though rising rapidly was still barely above the level that had first been reached in 1929, eight years earlier.

One reason that suggests itself was the rapidly spreading unionization drive in basic—and other—industries. The period immediately preceding the Roosevelt recession were the years of the rise of the CIO and the sit-down strikes. Whether this was the conscious intention of the New Deal-era policymakers or not, the unionization drive that had been gaining tremendous momentum, where millions of U.S. workers were feeling their power as a class for the first time, was thrown back in the face of what in effect was a massive government-organized lockout.

The U.S. trade union movement has never to this day regained the momentum it had in 1937. Even today, however, progressive historians still under the influence of the myth of Roosevelt's "progressive pro-labor New Deal," as we see in the case of even a man as intelligent as John Bellamy Foster, are not particularly interested in pursuing this line of inquiry.

Second, it is possible that the administration hoped to attract even more gold to the U.S.—though they claimed that they were alarmed by the gold inflow—at the expense of Germany, which unlike the U.S. was facing a problem of inadequate gold reserves that it needed to finance its pre-war arms build up. In the wake of the Roosevelt recession, the flow of gold from Europe to the U.S. greatly increased. Hitler solved the problem of the pressure on Germany's gold reserves created by the artificially engineered "Roosevelt recession" of 1937-1938 by annexing Austria. This considerably increased Germany's gold reserves, since Austrian gold reserves were now combined with Germany's. Europe was brought to the brink of war, which broke out in September 1939, a little more than a year later.

Part 6

1 Before 1917, all Russian Social Democrats, whether Bolsheviks or Mensheviks—with the exception of Trotsky—believed that the approaching revolution in Russia would not immediately bring the working class to power. Lenin believed that under the most favorable conditions—that the Russian revolution was accompanied by the victory of the workers in Western Europe—the revolution would bring to power a coalition of the working class and the revolutionary peasantry—the dictatorship of the proletariat and the peasantry—which would be dominated by the peasantry.

As used by Lenin, the term dictatorship of the proletariat and the peasantry *was not* another name for the dictatorship of the proletariat. The peasantry *as a whole*, according to Lenin, was revolutionary relative to the the feudal landlords, but its upper layers were part of the developing capitalist class. Consequently, a revolutionary dictatorship of the proletariat and the peasantry would ultimately be dominated by the capitalist upper layers of the peasantry, which Lenin believed could, unlike the liberal financial, industrial and commercial capitalists, play a consistent revolutionary role in the struggle against the political absolutism of Czarism and feudal landownership. It was therefore the most democratic possible form of bourgeois rule and would create the most favorable conditions for the future struggles of the working class against the *entire* capitalist class, including the capitalist farmers who were developing out of the upper layers of the peasantry.

According to Lenin, only the poorest peasants who were losing their means of production and becoming proletarians could be expected to be allies of the working class in a future socialist revolution. Under a democratic capitalist republic in Russia, which Lenin hoped would replace the absolute monarchy of the Czars, a shrinking layer of middle peasants would waver between supporting the workers and the capitalists as the class struggle between the capitalist class and the working class developed within the framework of a (bourgeois) democratic republic. Lenin sometimes used the term "the dictatorship of the proletariat and the poorest peasantry" to popularize the socialist dictatorship of the proletariat in a peasant country.

But the Russian Revolution, contrary to the expectations of the Bolsheviks, did bring the working class to power in the form of the Soviet republic led by the Bolsheviks, while the capitalists continued to rule in the rest of Europe and the world. Therefore, the ruling Bolshevik Party—now renamed the Communist Party—faced the entirely unexpected problems of leading an isolated socialist state embedded in what was still a thoroughly capitalist world economy.

2 Before 1924, all Soviet Communists believed that a complete socialist society could be built in Soviet Russia and the other nations of the former Russian empire only after the working class came to power in the most advanced industrial countries. Stalin specifically reaffirmed this position immediately after Lenin's death in 1924 but famously changed his stand later that same year.

Stalin's new position was that given the Soviet Union's tremendous size and natural resources there was no reason why the Soviet working class armed with state power could not build a "full and complete" socialist society in the Soviet Union alone even if the rest of the world remained capitalist.

Stalin granted one reservation—that the Soviet Union could not be fully guaranteed against the danger of a capitalist restoration brought on by a foreign military conquest by capitalist nations until capitalism was finally overthrown by the workers in all advanced capitalist nations. The danger of a foreign military invasion of the Soviet Union was very real as Germany's invasion of the Soviet Union in 1941 showed.

Trotsky strongly disagreed with Stalin's new position. Unlike many modern "Trotskyists," Trotsky *did not* claim that it was impossible to build socialism in a single country—the Soviet Union. Trotsky's actual position was that it was possible and indeed necessary to engage in socialist construction within the Soviet Union as long as it remained an isolated socialist state, but it would not be possible to build a full and complete socialist society within the

Soviet Union before the working class came to power in the most advanced capitalist countries, because the more the Soviet economy developed the more it would become dependent on the world economy.

Trotsky further warned that if the new doctrine of socialism in one country became entrenched in the Communist, or Third, International, the policies of the International—and its branches the national Communist parties—would become subordinated to the needs of Soviet foreign policy and diplomacy.

3 Ancient slavery such as prevailed in Greece and Rome had not been based on race. People of all races were enslaved. Modern slavery that arose during the rise of capitalism, however, was overwhelmingly the enslavement of African people. This had the advantage for the slaveholders that escaped slaves could be identified by their skin color. Therefore, modern much more than ancient slavery led to racism, the idea that people with dark skin are not fully human and are therefore fit by nature—or God—only for performing slave labor for the people with white skin.

4 Agricultural capitalists are industrial capitalists who carry out their industrial business in agriculture. The upper levels of the Russian peasantry were often called kulaks—fists—in Russian. They were not full-scale capitalist farmers for the most part but were employing more and more wage labor and thus evolving toward becoming capitalist farmers.

Preobrazhensky saw these aspiring capitalist farmers, driven by elemental economic forces towards the accumulation of industrial capital, as competing for control of the economic surplus—or surplus product as Preobrazhensky called it—with the socialist sector of the economy. While the interest of the workers demanded the development of the socialist sector of the economy, the aspiring capitalist farmers were pushing the Soviet economy in a capitalist direction where the "economic surplus" would again take the form of surplus value.

5 The extent to which the working class is willing to tolerate a very high rate of "primitive socialist accumulation"—high levels of production of means of production relative to means of personal consumption—depends in large part on the political consciousness of the working class. There are, of course, limits to how far even the most class-conscious workers can sacrifice their immediate consumption interests in order to carry out a rapid rate of "primitive socialist accumulation." Experience has shown that attempts to push the workers to sacrifice more than they are prepared to tolerate by Communist Party leaders eager to rapidly industrialize their countries opens the door to counterrevolutionary political forces who pretend to champion the workers in a struggle against "Communist exploitation."

6 Behind the deteriorating political climate in the USSR that climaxed in the terror and purges of the 1930s was the growing conflict between the upper layers of the peasantry, who were being driven by economic forces into becoming industrial capitalist farmers and carrying large sections of the middle peasants behind them, on one side, and the working class, which found consistent allies only among the poorest peasants who were losing their means of production to rich peasants, on the other.

There was therefore a growing class split among the victorious people who had been united against the Czar, the large urban capitalists and the feudal landlords—Russia's old ruling class. This class struggle within the victorious people was inevitably reflected in the increasingly vicious factional struggle within the ruling Communist Party, which ended with a massive bloodbath whose victims included many members of the Communist Party itself, including most of the surviving leaders of the Russian Revolution.

7 Since a transportation system centered on the private automobile is far less efficient in the use of fuel than a public transportation system would be, the oil companies have an interest in seeing to it that the inefficient system of private automobiles prevails over the more efficient system of public transportation. The more inefficiently petroleum is used, all other things remaining equal, the greater the demand for the commodity petroleum will be.

Therefore, in the view of the capitalists that own the oil industry, the fact that the supply of petroleum is not unlimited and that burning it up in internal combustion engines unleashes dangerous global warming cannot be allowed to get in the way of their profits. And since oil companies are among the most politically powerful, if not the most powerful corporate monopolies in the U.S., it is not surprising that they have used and are still using their vast political power to sabotage proposals to expand public transportation in the U.S. And even worse, they are now doing everything possible to promote denial of the growing danger of global warming.

8 Late in his life after the death Paul Baran in 1964, Sweezy came over to the view under the influence of Maoism that the Soviet Union was not a socialist state but rather a new form of exploitative class society. From about 1968, the Chinese Communist Party started to claim that the Soviet Union had become a capitalist state due to "Khrushchevite revisionism," a reference to the former Soviet leader Nikita Khrushchev (1894-1971), who had dominated Soviet politics between Stalin's death in 1953 and his own dismissal from office by the Soviet Communist Party in 1964.

Sweezy was far too intelligent an economist to believe that the capitalist laws of motion prevailed in the Soviet Union under either Stalin, Khrushchev or Khrushchev's successor, Leonid Brezhnev (1906-1982). But it was true that the members of the bureaucracy whose influence was growing within the Soviet Communist Party and the Soviet state were increasingly abusing their positions to obtain ever greater privileges in the sphere of consumption.

Bureaucrats are workers of a sort; nobody who was capable of work and was of working age could legally get by in the Soviet Union without holding a job of some kind. But working in an office is a far cry from toiling in a steel factory or in a coal mine or in the fields of a state farm. Therefore, weren't these bureaucrats in their own way

squandering the “economic surplus” produced by the labor of the Soviet working class in just the kind of wasteful way that Baran described in the “Political Economy of Growth”?

Within *certain limits*, the answer is yes. Indeed, the Brezhnev leadership that replaced Khrushchev in 1964 increased the production of consumer goods—as Khrushchev himself had done relative to the economic policies of Stalin—at the expense of new investment in the means of production, causing Soviet economic growth to slow to a crawl by the time of Brezhnev’s death in office in 1982.

However, Brezhnev’s increasing emphasis on consumer goods at the expense of “primitive socialist accumulation” did not really satisfy the increasingly not-so-”Soviet,” bourgeoisified bureaucracy and its allies among the middle-class “intelligentsia.” These bourgeois bureaucrats and their allies, which included a growing layer of more or less illegal traders operating in what came to be called the “second economy,” as well as bourgeois intellectuals, wanted nothing less than the full-scale restoration of capitalism with its right to private property in the means of production.

After Gorbachev came to power in 1985, these groupings described the Brezhnev years as the “period of stagnation.” However, these pro-capitalist forces were not really referring to economic stagnation but rather to the fact that, despite his concessions to the bureaucrats, the Brezhnev leadership like its predecessors upheld the basic gains of the October Revolution, state ownership of the means of production, a planned economy and state monopoly of foreign trade. From the viewpoint of the pro-capitalist “reformers,” under Brezhnev Soviet society’s evolution backward toward capitalist restoration had bogged down—hence the “stagnation.”

Mikhail Gorbachev, who became the CPSU chief in 1985, based himself on these bourgeois bureaucratic elements. He launched his “radical reforms” that targeted the state-owned socialist economy, the planning principle and the monopoly of foreign trade, though at first these attacks were disguised as mere “reforms.”

What Gorbachev began his successor Boris Yeltsin finished in the early 1990s. Soon after Yeltsin came to power in 1991, he announced that his government would sell the state-owned Soviet enterprises to the workers in the form of shares. This, Yeltsin claimed, would make the workers the “real owners” of the means of production. The increasingly impoverished workers, however, had no choice but to quickly sell their shares in what had been socialist state enterprises to people who had managed to accumulate vast sums of money through illegal—though under Gorbachev increasingly legalized—trade, theft and corruption. These moneyed elements quickly bought up the shares and emerged as a full-scale capitalist class while the workers were expropriated.

This shows, in my opinion, why though there were indeed strong tendencies for the bureaucracy in the Soviet Union to become a ruling class, it could only complete this process by becoming a full-scale *capitalist* ruling class. The tragic Russian counterrevolution therefore demonstrates that there indeed is no possibility for a new *non-capitalist* exploitative ruling class to replace the capitalists as the ruling class in modern society. Either the capitalists rule and ultimately bring modern society to ruin, or the workers rule and build a socialist society.

If the workers’ rule becomes bureaucratized and the process of bureaucratization is not checked in good time, the result is not a new type of class society but only the restoration of the “old” capitalism. Near the end of his life, Paul Sweezy expressed some regret that he had been carried as far as he had towards anti-Soviet positions under the influence of Maoism.

Part 7

1 In light of Marx’s perfected theory of labor value, the term “value of labor” used by Ricardo makes no sense. Value is a social—not physical—substance. It consists of abstract labor that becomes embodied in a commodity. Each commodity represents a certain quantity of abstract labor measured in terms of time. Therefore, neither abstract labor, which is the very substance of value when it becomes embodied in commodities, or the concrete labor that produces use values can itself be said to have “value.” To speak about the value of abstract labor—concrete labor produces use values and also has no value—is like speaking about the temperature of heat.

It should be noted that the value of commodities is measured in terms of the use value of the money commodity—gold—and like is the case with all use values, it is the concrete labor, not abstract labor, that produces gold as a material use value. However, it is the *physical substance* measured in terms of weight—and *not* the hours of concrete labor that goes into producing gold—that serves as the universal measure of value of commodities.

2 Following Adam Smith, Ricardo believed that what Marx would later call constant capital could be reduced to variable capital in the final analysis. Therefore, when Ricardo wrote about the rate of profit he was really referring to the rate of surplus value.

3 Born to a Jewish family in Poland, Kalecki was a left-wing pro-socialist professional economist. He is said to have discovered the “General Theory” independently of Keynes. His views on economic theory were very similar to Sweezy’s—in both their strengths and weaknesses—and he has exercised considerable influence on the Monthly Review School.

4 Concretely, capitalism reached the point where it began to generate crises on a regular basis in 1825, when the first modern global capitalist crisis of overproduction broke out. Within 75 years after the start of the first modern capitalist crisis—a human lifetime—capitalism based on free competition was transformed into monopoly capitalism.

5 “Productions costs” more or less refer to the prices of production. But with some modifications, we know that production costs are ultimately determined by underlying labor values.

6 If we were to define "the economic surplus" as simply another name for Marx's surplus value, which Sweezy did in places after the death of Baran, the only difference would be where "Monopoly Capital" talks of a tendency of the surplus to rise, Marx saw a rise in *the total mass of surplus value* not as a tendency but an absolute necessity if capitalism was to continue to exist. However, given the overall context of their work, it seems that what Sweezy and Baran really meant was that there was a tendency for the rate of profit to rise due to the monopoly pricing power of the corporations.

7 The Belgium Marxist Ernest Mandel (1923-1995) did date a new phase of capitalism that he alternately treated as a phase of monopoly capitalism or as a whole new phase of capitalism in its own right from around that time. Mandel first called this alleged new phase of capitalism "neo-capitalism" and then "late capitalism." However, Sweezy (and Baran) only distinguished between what they called "competitive capitalism" from the beginning of capitalism to about 1870 and monopoly capitalism after 1870.

Baran and Sweezy in "Monopoly Capital" also specifically rejected the term favored by the Soviet economists and the parties of the former Third International—"state monopoly capitalism." This term is used as representing a stage of capitalism beyond "monopoly capitalism" characterized by the growing intervention of the state in the capitalist economy.

Part 8

1 Also called by some the "Long Depression" to distinguish it from the 1930s Great Depression.

2 Though Kautsky put forward essentially the same ideas of the limits of capitalist production that Luxemburg attempted to rigorously prove in her "Accumulation of Capital," he did not support Luxemburg's view on the accumulation of capital and its historic limits in 1912 or later.

3 A universal cartel if it could completely suppress competition and establish a planned economy would indeed end crises. But such an economy would no longer be a commodity-producing economy and therefore would not be a capitalist economy. Lenin in his famous 1916 pamphlet "Imperialism" stressed that monopoly capitalism, or imperialism, was not pure monopoly—if it were, it would no longer be capitalism— but rather an unstable mixture of monopoly and free competition.

4 The more rapid growth of the department that produces the means of production relative to the department that produces the means of consumption means that the fraction of the economy that represents (gross and net) investment will grow faster than the portion of production that represents the means of consumption. However, as Keynes was well aware, spending on investment is far more unstable than spending on personal consumption. It is always possible to postpone the building of a new factory or even the replacement of an old factory, but every person has to eat every day. Therefore, as the economy becomes more dependent on investment as opposed to personal consumption, it becomes ever more crisis prone.

More severe crises mean deeper and longer periods of stagnation and a stronger trend toward monopoly. Therefore, despite the seeming "rigor" of Tugan-Baranovsky's arguments, the more capitalist production consists of the production of means of production to build more means of production the worse crises are, the more monopoly will grow, and the closer capitalism will be to collapse. Therefore, the intuitive feeling of Sweezy and many other Marxists that Tugan-Baranovsky's arguments were absurd were in the final analysis correct after all.

5 Lenin in his 1919 obituary to Luxemburg—who had been murdered by proto—Nazi "Free Corps" thugs with the support of the Social Democratic government—described Luxemburg as an eagle. He explained that even eagles can occasionally sink to the level of barnyard fowl, but that barnyard fowl can never soar to the level of eagles.

6 Sweezy's analysis of the problem of simple and expanded reproduction is necessarily incomplete because he failed to develop a theory of money.

7 Industrial and transportation enterprises in order to pay the construction companies that generate additional demand for items of personal consumption that help provide a market for Department II during the periods of construction must have access to an already existing hoard of money. If such a hoard does not exist, they will not be able to pay the construction companies that generate the demand for the commodities of Department II. Again, Sweezy did not analyze this extremely important aspect of the question because of his failure in "The Theory" to analyze money. This weakness in "The Theory" was not remedied in "Monopoly Capital," which ignored value and therefore money altogether.

Part 9

1 Following the teachings of John Maynard Keynes, the U.S. Federal Reserve System in a bid to lower real wages of U.S. workers has allowed the dollar price of gold—which measures inversely the amount of gold each dollar represents on the world market—to rise from about $675 at the beginning of the economic crisis in the summer of 2007 to over $1,400 at times. According to Keynes, such inflationary policies lower real as opposed to nominal wages, increase the demand for "labor" on the part of the capitalists and thus reduce unemployment by raising the profits of the capitalists.

For relatively well-paid workers and members of the middle class in the imperialist countries, higher food prices mean a reduction in their standard of living, since there is less money left over for other commodities. This is especially true since the same Keynesian monetary policies that are behind the rising price of food are also causing a rise in the price of gasoline.

But for badly paid workers who live largely in the nationally oppressed countries, the situation is far worse. Higher food prices can mean real hunger and even starvation. A fine way to fight unemployment!

2 Perhaps the first modern revolution, in the sense that it occurred after the modern classes—the capitalist class and the class of wage workers—had formed, was the French revolution of February 1848 that overthrew the "bankers' king" Louis Philippe. Under Louis Philippe, only a small portion of the French capitalist class—the financial capitalists—enjoyed political power; the industrial capitalists were largely deprived of power.

Therefore, both the industrial capitalists and the working class supported the February revolution that overthrew the Louis Philippe monarchy and established universal male suffrage—democracy for all French males. Like is the case with the current revolutions and unrest in the Arab world and elsewhere, the February revolution of 1848 was preceded by a global economic crisis—the crisis of 1847 and its associated depression, which continued into 1848. This crisis-depression sent unemployment soaring in France, making unemployment a key issue just like it is today.

The provisional government that emerged after the fall of Louis Philippe promised to establish the right to work—that is, to implement full employment policies through the establishment of government-financed workshops, a kind of proto-Keynesianism. In June 1848, however, the new government established by the February revolution with the support of both the industrial capitalists and the workers announced it was closing down the workshops. The workers of Paris then rose up to defend the workshops and the right to work.

These events are known as "the June days." The bourgeois militia—called the National Guard, not to be confused with the National Guard of the Paris Commune of 1871—brutally put down the uprising. The people united in victory in February 1848 had split into hostile class camps in June.

"The right to work," Marx wrote in an article that was later collected into the book "Class Struggles in France," "is in the bourgeois sense, an absurdity, a miserable, pious wish." This can be considered Marx's definitive judgment on "Keynesian" full employment policies. His later work in economic science only reinforced these conclusions written several years after the February 1848 French revolution.

3 If the problem of realizing value and surplus value could be solved simply through government spending and printing paper money, it would hardly be a major contradiction of the capitalist system, since it wouldn't be hard to develop government policies to guarantee the realization of the value and surplus value of all commodities. Were that the case, neither Marx nor Engels would have put so much emphasis on it.

4 Could there be an all-out war economy in the future? If the most powerful weapons that are now available were actually used, there would not be a war economy but the complete destruction of human civilization within hours if not minutes. In that case, the conditions for a resumption of capitalist expanded reproduction along with much else would be destroyed for decades or more likely forever.

5 In 1948 in Germany, the badly depreciated Reichmarks were exchanged for the new Deutschemarks in the U.S., British and French zones of occupation, and price controls were suddenly removed. Prices jumped but then quickly stabilized and profits and investments soared. The German capitalists had lost a lot of capital, but with postwar wages very low, the rate of profit was very high and they made up their losses relatively quickly. Still, they were not nearly as rich as they would have been if the Nazis had won the war. In that case, their government bonds would have been repaid in full in good money, and they would have had all of Europe, from the Atlantic to the Urals for starters, to plunder and exploit.

The 1948 German currency reform also forced the division of Germany between the capitalist Federal Republic of Germany, which occupied about 75 percent of the shrunken area of postwar Germany, and the socialist German Democratic Republic, which occupied about 25 percent of what remained of Germany.

6 Ricardo following Adam Smith ignored the existence of constant capital because he accepted Smith's argument that constant capital can be reduced to variable capital in the final analysis. However, if we assume that constant capital is unchanged, Ricardo was right. Despite the claims of Keynes and Kalecki, higher wages will not mean higher prices but lower profits. When it came to understanding the nature and origins of profit, Ricardo was far superior to Kalecki.

7 John Bellamy Foster's "monopoly finance capital" should not be confused with Lenin's concept of "finance capital." Lenin defined finance capital as the *merger* of banking and industrial monopoly capital and the formation of a "financial oligarchy" on that basis. If Lenin's view is correct, the financial capitalists and industrial capitalist are increasingly the same people.

In this case, the hope of appealing to the interest of the monopoly industrial capitalists as against the monopoly finance capitalists is obviously futile. Foster, in contrast, sees monopoly finance capitalists as representing a separate group of people within the capitalist class who unfortunately now have most of the political power. According to Foster, they essentially are the owners and managers of banks and insurance corporations. This leaves the door open to appealing to the profit interests of the monopoly—and non-monopoly—industrial and commercial capitalists as opposed to the interest of the monopoly finance capitalists.

Rather than seeing the capitalist class as a whole as the barrier to full employment, Foster sees only one fraction of the capitalist class—the monopoly finance capitalists—as having interests that are in fundamental opposition to full employment policies.

Therefore, it should be possible at least in theory, he believes, to build an alliance that includes large sections of the capitalist class who share with the workers an interest in full employment polices against that fraction of the capitalist class that benefits from unemployment. This would form the social base of a future pro-full employment new New Deal administration in the U.S. and similar "progressive" governments in other countries.

8 Since World War II, one imperialist country, the United States, has maintained such overwhelming economic, financial, political and military dominance that no other imperialist country has had any chance of successfully challenging it militarily. However, the once overwhelming economic dominance of the United States has been eroding for decades. So far, the dollar system and with it the overwhelming military and political dominance of the U.S. has remained intact, preventing a serious danger of war among the imperialist countries. However, if U.S. economic power continues to decline, it will be only a matter of time before the dollar system collapses. If this happens, the overwhelming military and thus political dominance of the United States can be expected to fade and finally vanish.

While we can hope that the destructiveness of today's weapons would deter an all-out inter-imperialist war, the history of imperialism warns us not to count on it. A future inter-imperialist war would likely grow out of more limited wars that would gradually escalate into a new world war. The only way to end the danger once and for all of a new inter-imperialist world war is to overthrow the capitalist system while there is still time.

9 Marx and Engels explained in the "Communist Manifesto" that as the ruling capitalist class begins to disintegrate certain members of the ruling class will come over to the side of the workers. Marx and Engels were by social origin themselves members of the bourgeois intelligentsia, not workers. Engels was even an active industrial capitalist. However, there is no section of the ruling class that *as capitalists* has an interest in genuine full employment policies.

As the contradiction between the needs of our species' productive forces and capitalist relations of production continues to grow, the ruling class will continue to disintegrate. As this process proceeds, we can expect to see substantial numbers of young economists begin to question the capitalist system just like we saw in the 1930s. There will be more young Paul Sweezys out there, who very likely will advance Sweezy's work and learn from Sweezy's mistakes and limitations.

However, we cannot advance this process by struggling to win over young economists to Keynes rather than to Marx. If we win them over to Keynes, we will simply be turning them back into the ranks of the pro-capitalist economics professors. This is exactly what happened with many radicalized young economists of the 1930s who later evolved into pro-capitalist "neo-Keynesians" of the Cold War post-World War II years. Attempting to win over economists to the pro-capitalist, pro-imperialist Keynes only makes sense if we think that capitalism still has a progressive role to play, not only in underdeveloped countries that are still emerging from pre-capitalist relations but in the the imperialist countries as well.

10 Marx first used the term "slaveholders' rebellion" to refer to the rebellion of the slaveholding states of the U.S. against the Republican administration of Abraham Lincoln, which had been elected in the 1860 U.S. presidential election. Lincoln had not run on a program of abolishing slavery but simply a program of opposition to the further spread of slavery and creation of any more slave states.

On this question, Lincoln refused compromise. Due to the wasteful mode of production of the slaveowners that quickly led to the exhaustion of the soil, the prohibition of the further spread of slavery would have condemned the slave-owning system to gradual extinction. Lincoln and his supporters hoped this would be a gradual and peaceful process. Their hopes, however, were not to be realized.

Rather than accept the result of this relatively democratic election—I say relatively democratic because neither free Northern Blacks nor women, not to speak of the Southern slaves who had the greatest interest in the outcome, had the franchise—the Southern slaveholding states staged a rebellion against the lawfully elected Lincoln administration and won over large sections of the U.S. military including its leading and most talented officer Robert E. Lee. The result was an exceptionally bloody civil war that led to the deaths of more than 600,000 Americans.

In Volume I, Chapter 10 of "Capital," Marx referred by way of analogy to "pro-slavery rebellions" of English capitalists who illegally resisted the laws limiting the workday in 19th century England. Marx expressed the hope that in such relatively democratic countries as the United States and Britain the workers might come to power through peaceful methods. But he warned the workers against the danger that even in these countries the capitalists like the U.S. Southern slaveholders of 1861 might very well not accept the election of a workers' government and instead would launch an illegal "slaveholders' rebellion" in a last-ditch attempt to save the capitalist system.