A Critique of the Revival of Keynesian Counter-Recessionary Policies

In the modern history of capitalism, Keynesian counter-recessionary policies (broadly defined) have failed in two major ways. First, those policies have not consistently succeeded as means to end capitalism’s cyclical downturns. They failed, for example, to extract the US from the Great Depression of the 1930s. As this is written, their effectiveness in today’s global capitalist crisis is questionable. Second, the promise that has almost always accompanied each application of Keynesian policies everywhere – that it would also prevent future economic downturns – has never yet been kept.

The Keynesian policies have included varying mixtures of monetary (easing) and fiscal (expansionary) policies and market regulations (especially in finance). They have sometimes included controls on capital flows as well as subsidies, bailouts, and outright nationalizations of private enterprises. Different combinations of these components characterize Keynesian policies in different countries and at different historical moments.

The chief means that actually ended capitalism’s downturns have been declines in the following: productive laborers’ real wages, finished product inventories, means of production prices, and the associated costs of securing profits (managers and other non–productive workers’ wages and operating budgets, taxes, access to credit, rents, etc.). Once those declines sufficed to reach certain thresholds, capitalists could see profit possibilities and so resumed productive investment. That generated more or less “recovery” via multiplier and accelerator effects particular to each place and time. In short, capitalism is a systematically unstable economic system whose cycles are basic features of its normal functioning. Keynesian policies have never basically altered that systemic instability.

Keynesian policies, we propose to argue, have largely provided quite secondary supports to the normal functioning of capitalist cycles. They marginally moderate the cycles’ amplitude and duration. They temporarily impose both costs and constraints on the profit-seeking activities of corporate boards of directors. In these ways, Keynesian policies successfully buy both political space and time for the capitalist cycle to run through its usual downward phase. In the current global capitalist crisis, massive Keynesian deficit spending as well as credit–market bailouts have generated huge increases in many capitalist countries’ national debts. Lenders eventually balk at further loans to the most over–indebted nations, demanding that they raise taxes and/or cut spending to qualify for more loans. If and when that proves politically impossible for lenders to impose on borrowing nations, multilateral agencies offer less onerous terms for loan assistance but with the same demand for austerity conditions. Those conditions – conveniently imposed by others and not the national government – all serve to drive down wages and other costs of business and so once again set the stage for the usual capitalist cycle.

Besides their secondary role, Keynesian policies also serve an important diversionary function. Governments appear to be working mightily to “overcome the economic crisis” by implementing those policies with great fanfare. They thereby distract publics from yet another repetition of the normal capitalist’s cyclical downturn. Exploding national debts, like other Keynesian policy programs constitute an elaborate diversionary political theater.

As capitalist crises deepen and last, politicians of most persuasions increasingly express concern, compassion, and/or anger about mass unemployment, home foreclosures, bankruptcies, poverty, etc. They engage in heavily publicized debates and legislative contests over the appropriate monetary, fiscal, regulatory, subsidy, bailout, capital control, and private–enterprise–take–over policies to be executed by the state. These theatrics usually absorb the political energies of many left and right forces that might otherwise, separately or together, make the capitalist system itself the object of opposition, struggle, and transformation. Left–tilting inflections of Keynesian policies often include, for example, direct state subsidies to or hirings of un/underemployed workers, controls over private investment flows, and enterprise nationalizations. Right–tilting inflections

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often include, for example, restrictions on immigration, reduced taxes on small businesses, and spending on business–friendly infrastructure construction.

In the context of this argument, Figure 1 below supports the basic irrelevance of Keynesian policies to the basic contours of capitalist exploitation measured roughly by the relation between labor productivity and real wages [1]. First, it covers a long period of US economic history: before, during, and after Keynesian interventions occurred in their classic form in the 1930s. Figure 1 reveals trends for manufacturing, in both labor productivity and real wages, that show no systematic sensitivity to either the imposition or the negation of Keynesian policies over the last century. The complex overdeterminations of real wage and productivity movements were not much influenced by the rise and fall of Keynesian policy regimes nor by whether neo–liberal/neo–classical economics or Keynesian macro–economics prevailed in academic and policy–making circles.

Figure 1:

![Productivity and the hourly wage, 1890-2009](Image)

(Index: 1890 = 100; Sources and details for Figure 1: see Appendix)

Indeed, the relatively laissez–faire period before the 1930s saw productivity and real wages rise more or less together, whereas productivity rose somewhat faster than real wages during the 1930s when Keynesian policies were imposed. However, in the second half of the 1960s into the 1970s, during a second spurt of Keynesian policies (Johnson’s “Great Society”, etc.), productivity rose much faster than real wages. Then, driving home the irrelevance of Keynesian policies to the productivity–real wage relation, the extreme laissez–faire, neo–liberal undoing of Keynesian policies after 1980 then saw the last century’s most unequal of productivity to real wage ratios.

The end of World War I marks the beginning of a near century of capitalist growth in the US (notwithstanding the Great Depression’s impact) that saw a self–reinforcing divergence between what workers produced for their employers (productivity) and what they were paid by their employers for doing so (real wages). Capitalist cycles punctuated but did not basically alter that growth pattern.[2] Keynesian policies punctuated but did not basically alter the cycles, let alone the growth pattern.

For the working classes, the alternation between laissez–faire and Keynesian policy regimes made little discernible difference in the long–run relationship between labor productivity and real wages. Put otherwise, both regimes could and did facilitate growing gaps between productivity and wages over the last half century, much as earlier both regimes facilitated minimal gaps between them.

In rough terms, the productivity of labor exceeded the real wage in 1890, the base year used to compute Figure 1 above. That is, in Marxian terms, workers produced a surplus for their employers already then. Thereafter, that surplus grew both absolutely and relative to real wages. Measured in value terms, the Marxian metric, the rate of exploitation rose as US capitalism prospered across its cycles. Alternations between Keynesian and laissez–faire policy regimes, like
the accompanying oscillations of theoretical hegemony between neoclassical and Keynesian economics, were secondary side shows to the main event of rising exploitation.

If workers in the US hoped that supporting the Keynesian policies of FDR, Truman, Kennedy, Johnson, Nixon and others would alter their basic positions inside US capitalism, they were disappointed. Notwithstanding their rising real wages from the 1940s to the 1970s and all sorts of political and cultural obfuscations (about everyone being “middle class” or the US being a “people’s capitalism”), the workers lived in the growing gap between their real incomes and the wealth of those who took the lions’ share of the surpluses they delivered to employers. Their accumulating disappointment helps to explain some periodic disaffections of workers from the Democrats. After real wages stopped rising in the late 1970s, workers increasingly defected to even to clearly pro-business Republicans (Greenberg 1996).

A Critique of Keynesian Theory’s Revival

The laissez-faire (neo-liberalist) phase of capitalism that dominated the world economy over the last 30 years has crashed. That, in turn, has now challenged the hegemony of neo-classical economics as the theoretical rationale for celebrating private enterprise and free markets, privatizing public enterprises, and deregulating markets. Keynesian economics is reviving (Skidelsky 2008). As states everywhere again intervene in the "private" economy --- more massively than ever this time --- Keynesian economics provides many of the prescriptions and rationales for state economic interventions.

With revival come renewed contestations among different interpretations of Keynes. The differences reflect especially long-standing pressures upon Keynesians from both the left (those who criticize them for “saving” capitalism) and the right (those who attack them for “threatening” capitalism). The most widespread Keynesianism is what prevails in the treatments by most economics textbooks and among advisors to most governments now intervening in their economies to contain and reverse the damages from the current capitalist crisis. This interpretation of Keynesian theory rationalizes state interventions (especially expansionary monetary and fiscal policies and financial market regulations) in an otherwise private capitalism. It represents the predictable first (and quite moderate) phase of a Keynesianism just emerging after 30 years of neoclassical theory’s near total hegemony. This Keynesian theory’s goal is quite clearly to save capitalism from what it understands to be the dangerous consequences of laissez-faire (neo-liberal) policy regimes.

Most partisans of another interpretation, the relatively new variant sometimes called Green Keynesianism, want traditional monetary, fiscal, and regulatory policies redesigned to stress ecological goals (Jones 2008). They seem, at least implicitly, to offer an alliance, a political deal to the dominant Keynesians. Green Keynesians will basically support the goal of saving capitalism in exchange for a Keynesian policy package that makes capitalism significantly greener. Thus, for example, Green Keynesians want expansionary deficit government spending to favor energy-saving mass transportation, installation of solar energy facilities, etc., while tax cuts should favor those who undertake pollution reduction, etc.

Left Keynesians typically want larger, more extensive, and more intrusive state intervention into the private economy. They seek state seizures of private enterprises when their demise threatens broad economic collapse (sometimes referred to as corporations “too big to fail”). They particularly favor state controls over investment and other capital flows, domestically and internationally, to limit and prevent those flows' otherwise destabilizing effects. Many left Keynesians share the Green Keynesians' goals and thus offer them an alternative political deal. Instead of allying with the socially prevalent, rather moderate Keynesians, the Green Keynesians are invited to see better chances of realizing their environmental goals with left Keynesian policies in command. Left–right divisions among Green Keynesians are now shaping who among them allies with whom.

The furthest left Keynesians advocate the most intrusive state interventions. Many of them refer to such interventions as key parts of a transition to what they sometimes call socialism. Allied with other kinds of socialists, including some Marxists, the far left Keynesians seek to expand state intervention to include officials permanently replacing share-holder elected corporate boards of directors and officials permanently controlling or even replacing markets (with more or less central planning of the distribution of resources and products). For them, those two permanent replacements define socialism.[3]
Whether and to what extent any interpretation of Keynesian economics can now displace the last 30 years’ hegemony of neoclassical economics will depend on all the economic, political and cultural processes shaping the contesting protagonists of both paradigms. Those processes will simultaneously overdetermine the outcome of disputes among alternative interpretations of Keynesian economics.[4] Meanwhile, and contrary to notions that neoclassical versus Keynesian economics encompasses the total range of possible economic theory, the Marxian alternatives offer something different from both of them.

One particular Marxian approach does not ally with any variant of Keynesian economics; it stresses its differences from all of them. I want to develop that approach briefly here by noting first that it rejects the Keynesians’ nearly exclusive focus on the macro-level of the economy. This Marxian theory goes well beyond state regulation, controls, and ownership of capitalist enterprises (versus their private counterparts) and likewise beyond planning (versus markets). The hallmark of this Marxian theory is an explicit micro-focus drawn from Marx’s critique of the class structure of production.

**A Marxian Theoretical Alternative**

This Marxian theory begins from the historical observations summarized in this paper’s first paragraph.[5] Keynesian policies have not overcome the capitalist system’s inherent instabilities. Nor have Keynesian economists seriously measured, let alone found ways to eliminate, the vast and long–lasting social costs of that instability. As we now live through the second great crisis of capitalism in 75 years, we do know that its global social costs are again immense. Between the end of the Great Depression and the onset of today’s crisis, the NBER counts an additional eleven “business cycle downturns” that also generated large social costs (http://www.nber.org/cycles/cyclesmain.html). So many large and small crises underscore Marxian theory’s advocacy of changing the economic system as a solution for such crises rather than repeated oscillations between neoclassical (private) and Keynesian (state or state-interventionist) forms of capitalism. Modern society can do better than capitalism.

From the standpoint of this Marxian theory, the failures of Keynesian policies – and the Keynesian economics that rationalize them – flow from their neglect of the micro–dimensions of capitalism. In short, the unattended contributor to capitalist instability is the relationship inside enterprises between the workers – who produce the surpluses – and the employers (e.g. corporate boards of directors) who appropriate and distribute those surpluses.[6] Because Keynesian policies impose costs and constraints on employers in their exploitative relations with workers and in their competitive struggles within and across industries, those employers have great incentives to evade, weaken or end those Keynesian policies. Because employers appropriate the surpluses (and hence the profits) of enterprise, they dispose of the resources needed to respond positively to those incentives.

That is what happened to Roosevelt’s 1930s New Deal and what has more recently been happening to much of western European social democracy (Clayton and Ponstusson 1998). In both cases, the employers used the surpluses appropriated from their employees to move their societies back toward a laissez-faire policy regime as soon as they secured the political conditions enabling them to do so.[7] Macro–level efforts to control and constrain capitalism’s instability failed because of the capitalists’ continued appropriation and politically effective distributions of the surpluses produced inside enterprises.

Marxian theory emphasizes how employers’ decisions about distributing the surpluses are significantly influenced by the struggles between producers and appropriators of surpluses inside capitalist enterprises as well as by the competitive struggles among them. Hence Marxian theory suggests the internal transformation of enterprise structures. Instead of their typical capitalist structures that split employers from employees, a post–capitalist structure would position workers as, collectively, their enterprise’s own board of directors -- Marx’s “associated workers.” The era of capitalist employers (e.g., corporate boards selected by and responsible to major private shareholders) would then have come to an historic end. The capitalist class structure of production would have been superseded by such a collectivization of surplus appropriation inside enterprises (Wolff 2010).

For example, consider enterprises newly structured such that the workers produce outputs in the usual way Mondays through Thursdays, but on Fridays, assembled in both plenaries and subgroups, they make decisions previously taken by boards of directors selected by (major)
shareholders. That is, the workers democratically decide what, where, and how to produce and how to distribute their realized surpluses. They decide when and how to expand and contract. But they do not do that alone. They enter into co–respective power–sharing agreements with the local and regional communities where their physical production facilities are located. The workers participate in the residential communities’ decision–making processes and vice–versa.[8]

Such a micro–based level of socialism becomes the necessary new complement to the classic macro–level socialisms that stressed socialization of means of production and planning over markets. Indeed, the micro– and macro–levels of socialism would then support and, just as importantly, constrain one another. Macro–level property socialization and economic planning would emerge from and be accountable to the micro–level collectives appropriating the enterprise–level surpluses they would use to enforce that accountability. At the same time, the micro–level enterprise collectives would have their production and distribution decisions constrained by the macro–level (social) needs, priorities, and planning mechanisms (possibly co–existing with market mechanisms).

This micro–level socialism supports genuine democracy inside each enterprise. It also creates the parallel economic partner for democratic political institutions in residential communities. Democratic collectivities inside enterprises and their residential community counterparts would henceforth together reach their interdependent decisions. Likewise, they would share their interdependence with macro–level institutions, both economic and political.

Today’s reviving Keynesianism once again largely ignores the micro–level issues raised in and by the Marxian criticism and alternative briefly sketched above. Most Keynesian programs now aimed to end the economic crisis, if they actually re–stabilized contemporary capitalism, would thereby initiate their own demise. That is, they would then repeat the historical pattern of oscillating back to a laissez–faire capitalism. The Marxian alternative program that included the micro–level transformation of production sketched above would break, finally, from the repeated oscillations between private and state–interventionist capitalisms and the unnecessary social costs of capitalism’s instability.

Endnotes
[1] Graphically juxtaposing productivity and real wage trend lines is suggested by but not the exact equivalent to the Marxian notion of surplus value (s/v or the ratio of value added less productive workers’ value of labor power – numerator – to productive workers’ value of labor power – denominator). First, what contemporary statistical practice counts as manufacturing workers’ wages conflates both productive and unproductive laborers in manufacturing; Marxian theory keeps these separate. Second, the relevant variable for Marxian theory – value of productive laborer’s labor power – is not equivalent to real wages, but is rather real wages adjusted for changes in the productivity of producing real wage goods. Because of the difficulties in translating available statistics into their Marxian analogues, we use here the available manufacturing productivity and real wage trends which allow us to substantiate the argument offered in the text.
[3] For a systematic critique of definitions of socialism in terms of state ownership and state planning, see S. Resnick and R. Wolff, 2002). We show there why and how capitalism has oscillated between private and state forms that are both as old as capitalism itself.
[4] Limited space and the main foci of this paper prevent a discussion here of the alternative, contesting variants of neoclassical economics. Those constraints have also minimized attention to the different interpretations of Marxian economics; such attention is available in Resnick and Wolff, 2006.
[6] A full exposition of how capitalist enterprises organize the production, appropriation, and distribution of surpluses can be found in Resnick and Wolff (1987, Chapter 3).
[7] An alternative mode of articulating this argument – one that uses the terms “private capitalism” and “state capitalism” to differentiate laissez–faire from CRS policy regimes – is developed in Resnick and Wolff 2002. There we extend the analysis to include the state capitalisms of the USSR and other “actually existing socialisms” which have demonstrated the same vulnerability to reversals back to laissez–faire or private capitalism as have CRS policy regimes and for parallel reasons.
[8] A rich literature explores experiments in and analyses of such enterprises (producer co–operatives modeled on the Mondragon enterprises in Spain, Yugoslavia’s worker–run enterprises, etc.) in which workers
more or less appropriate and distribute the surpluses they produce; see Gibson-Graham (2006) for a theoretically sophisticated entree into that literature.

References:


Appendix: Sources for Figure 1
[Compiled by Jason Ricciuti-Borenstein]

1. For wage series for manufacturing workers, 1890–2007
A. Historical Statistics of the United States (HSUS), Series D 765–778, “Average Hours and Average Earnings in Manufacturing”, 1890 to 1926
B. HSUS, Series D 845–876, “Average Days in Operation Per Year, Average Daily Hours, and Annual and Hourly Earnings, in Manufacturing”, 1889 to 1914
C. HSUS, Series D 830–844, “Earnings and Hours of Production Workers in 25 Manufacturing Industries”, 1914 to 1948
D. HSUS, Series D 802–810, “Earnings and Hours of Production Workers in Manufacturing”, 1909 to 1970

2. For consumer price index:
F. HSUS, Series D 735–738, “Average Annual and Daily Earnings of Nonfarm Employees”, 1860 to 1900
G. HSUS, Series D 722–727, “Average Annual Earnings of Employees”, 1900 to 1970

Notes: The series was constructed first by converting the various hourly wage series into real values of 2007 $. Second, in years for which multiple entries of the hourly wage existed, an average was taken such that:
1890–1914, average of sources A and B
1914–1919, B was the only source
1920–1938, average of sources C and D
1939–1948, average of sources C, D and E
1949–1970, average of sources D and E
1970–2007, E was the only source
Next, this hourly real wage series was converted into an index, in which 100 was set equal to the real hourly wage for 1890.

1. For productivity series for manufacturing output per hour
      “Industry analytical ratios for the manufacturing, all persons”

Notes: The above data sources provide the annual percentage change in the quantity of output per hour for the manufacturing sector. The index was constructed as follows:
   1890 to 1949, from source A
   1949 to 1987, from source B
   1987 to 2007, from source C
Year 1890 was set equal to 100.