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A man for this season? Keynes

Perspective

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THE collapse of neoliberal economics, with its worship of the "self-regulating market," has had among its most significant consequences the revival of the great English economist John Maynard Keynes. It is not only his writings that make Keynes very contemporary. There is also the mood that permeates them, one that evokes the loss of faith in the old and the yearning for something that is yet to be born.

Aside from their prescience, his reflections on the condition of Europe after the First World War resonate with our current mix of disillusion and hope: In our present confusion of aims, is there enough clear-sighted public spirit left to preserve the balanced and complicated organization by which we live? Communism is discredited by events; socialism, in its old-fashioned interpretation, no longer interests the world; capitalism has lost its self-confidence. Unless men are united by a common aim or moved by objective principles, each one's hand will be against the rest and the unregulated pursuit of individual advantage may soon destroy the whole.1

Governing the Market

That government must step in to remedy the failure of the market is, of course, the great lesson that Keynes imparted, one derived from his wrestling with the problem of how to bring the world out of the Great Depression of the 1930s. Left to itself, the market, Keynes said, would achieve equilibrium between supply and demand far below full employment and could stay there indefinitely. To kick-start the economy into a dynamic process that would move it toward full employment, the government had to serve as a deus ex machina, pouring massive quantities into spending that would create the "effective demand" that would restart and sustain the engine of capital accumulation.

President Obama's $780-billion stimulus package, as well as those of Europe and China, are classically Keynesian, being preemptive measures to stave off a depression; and a measure of the triumph of Keynes after nearly 30 years of being in the wilderness is the marginal impact on the public discourse of the howls of Republicans, Russ Limbaugh, the Cato Institute and other species of neoliberal dinosaurs about "passing on a huge debt to coming generations."

Roger Fry, Maynard Keynes, c. 1916. Pen and ink on paper. 8 1/2 x 6 1/2 inches.
Private collection

Uncertainty and animal spirits

The revival of Keynes is not, however, simply a policy matter. It involves as well the theoretical displacement of the assumption of the individual rationally maximizing his or her interest from the center of economic analysis by two ideas. One is the pervasiveness of uncertainty in the making of decisions, which investors try to deal with by working on the soothing but highly unlikely assumption that the future will be like the present, and by coming up with techniques to predict and manage the future based on these assumption. The related concept that Keynes is associated with is the notion that the economy is driven not by rational calculus but by "animal spirits" on the part of economic actors; that is, by their "spontaneous urge to action."2

Key among these animal spirits is confidence, the presence or absence of which is at the center of the collective action that drive expansions and contractions. Not rational calculation but behavioral or psychological factors predominate. From this standpoint, the economy is like a manic-depressive driven by chemical imbalances from one pole to the other, with government intervention and regulation playing a role akin to that of chemical mood stabilizers in the case of the clinically bipolar. Investment is not a matter of rational calculus but a manic process that Keynes described as "a game of Snap, of Old Maid, of Musical Chairs, the object of which to pass on the Old Maid—the toxic debt—to one's neighbor before the music stops."3 Here, notes Robert Sidelsky, Keynes's biographer, "is the recognizable anatomy of the 'irrational exuberance,' followed by blind panic, which has dominated the present crisis."4

Economists as dentists

Unbridled investors and submissive regulators are not the only protagonists in the recent tragedy. The hubris of neoliberal economists also played a part, and here Keynes had some very relevant insights for our times. Economics, he saw, as "one of these pretty, polite techniques which tries to deal with the present by abstracting from the fact that we know very little about the future." Indeed, he was, as Skidelsky notes, "famously skeptical about econometrics," with numbers for him being "simply clues, triggers for the imagination," rather than the expressions of certainties or probabilities of past and future events. With their model of rational homo economicus in tatters and econometrics in disrepute, contemporary economists would do well to pay heed to Keynes's advice that if only "economists could manage to get themselves thought of as humble, competent people on a level with dentists, that would be splendid."

Yet, even as many welcome the resurrection of Keynes, others have doubts about his relevance to the current period—and these are not limited to neoliberal die-hards.

Limitations of Keynsianism

For one thing, some contend, Keynesianism is mainly a tool for reviving national economies, and globalization has severely complicated this problem. In the 1930s and 1940s, it was a case of reviving industrial capacity in relatively integrated capitalist economies that revolved around the domestic market. Nowadays, with so many industries and services having been transferred or outsourced to low-wage areas, the effects of Keynesian-type stimulus programs that put money into the hand of consumers to spend on goods would have much less impact as a mechanism of sustained recovery. Transnational corporations and TNC host China may reap profits, but the "multiplier effect” in de-industrialized economies like the US and Britain might be very limited.

Second, the biggest drag on the world economy is the massive gulf—in terms of income distribution, the pervasiveness of poverty, and the level of economic development—between the North and the South. A “globalized” Keynesian program of stimulus spending funded by aid and loans from the North is a very limited response to this problem. Keynesian spending may prevent economic collapse and even spur some growth, but sustained growth will demand structural reform of a radical kind—the kind that will involve a fundamental recasting of economic relations between the central capitalist economies and the global periphery. Indeed, the fate of the periphery—the “colonies” in Keynes’s day—did not elicit much concern in his thinking.

Third, Keynes’s model of managed capitalism merely postpones rather than provides a solution to one of capitalism’s central contradictions, which is the underlying cause of the current economic crisis: that of overproduction, in which productive capacity outpaces the growth of effective demand, driving down profits. Here, a bit of history might place things in perspective. The Keynesian-inspired activist capitalist state that emerged in the post-World War II period seemed, for a time, to be able to surmount the crisis of overproduction with its regime of relatively high wages and technocratic management of capital-labor relations. However, with the addition of massive new capacity from Japan, Germany and the newly industrializing countries in the 1960s and 1970s, its ability to do this began to falter, leading to the famous stagflation or coincidence of stagnation and inflation throughout the industrialized world in the late ’70s.

The Keynesian Consensus collapsed, as capitalism sought to revive its profitability and overcome the crisis of overaccumulation by tearing up the capital-labor compromise, liberalization, deregulation, globalization and financialization. In this sense, these neoliberal policies constituted an escape route from the conundrum of overproduction on which the Keynesian welfare state had foundered. As we now know, they failed to bring back a return to the “golden years” of postwar capitalism, leading instead to today’s economic collapse. It is not, however, likely that a return to pre-1980s Keynesianism is the solution to capitalism’s persistent crisis of overproduction.

The great lacuna

Finally, and perhaps the greatest obstacle to a revived Keynesianism, is the revving up of global consumption and demand that is its key prescription for revitalizing capitalism in the context of the climate crisis. While the early Keynes had a Malthusian side, his later work hardly addressed what has now become the problematic relationship between capitalism and the environment. The challenge to economics at this point is raising the consumption levels of the global poor with minimal disruption of the environment while radically cutting back on consumption or overconsumption in the North, which is the greatest contributor to climate change. There is something that is simply foolish and irresponsible with all the talk about replacing the bankrupt American consumer with the Chinese peasant engaged in American-style consumption as the engine of global demand.

Given the primordial drive of the profit motive to transform living nature into dead commodities, it is increasingly doubtful that the reconciliation of ecology and economy can be done under capitalism—even under the state-managed technocratic capitalism promoted by Keynes.

'We are all Keynesians again?'

In other words, Keynesianism provides some answers to the current conjuncture but it does not provide the key to surmounting it. Global capitalism has been laid low by its inherent contradictions, but it is not self-evident that a second bout of Keynesianism is what it needs. Clearly, the deepening international crisis calls for severe checks on capital's freedom to move, tight regulation of financial as well as commodity markets, and massive government spending. However, the needs of the times go beyond these Keynesian measures to encompass massive income distribution, a sustained attack on poverty, a radical transformation of class relations, deglobalization, and perhaps the transcendence of capitalism itself under the threat of environmental cataclysm.

"We are all Keynesians again"—to borrow but slightly modify Richard Nixon's much quoted phrase—might be said to be the theme that unites Barack Obama, Paul Krugman, Joseph Stiglitz, George Soros, Gordon Brown and Nicholas Sarkozy, though in the implementation of the master's prescriptions, they may have differences. But an uncritical revival of Keynes might simply end up with another confirmation of Marx's dictum that that history first occurs as tragedy, then repeats itself as farce. The period does not so much need Keynes as it needs its own Keynes. n

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1 Robert Skidelsky, John Maynard Keynes: the Economist as Savior (London: Penguin Books, 1992), p. 121.

2 George Akerloff and Robert Sherrill, Animal Spirits (Princeton: Princeton University Press, 2009).

3 Robert Skidelsky, "Keynes is Back," Prospect Magazine, Nov. 2008; http://www.prospect-magazine.co.uk/article_details.php?id=10451

4 Ibid.

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