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Why Keynes Isn't the Answer

The Twilight of Monetarism

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As the disastrous consequences of super-free market policies become apparent, voices are being raised in capitalist and social democratic circles demanding state intervention to revive the economy. But is it really an alternative; and would a new round of state economic intervention and debt-financing of growth have beneficial effects for working people? Here ERNEST MANDEL argues that traditional Keynesian reflationary policies must be distinguished from the budget deficit policies of Thatcher and Reagan; and that capitalist reflation only brings short-term

advantages for the working class, and inevitably ends up in a new recession.

The fundamental idea of Keynesianism is that state spending, a national budget deficit, can be used to combat economic crisis and recession.

From a theoretical point of view, raising overall demand in a given country will facilitate a recovery insofar as there is disposable productive capacity (unemployed workers, stocks of raw materials, machines working below capacity). These unused resources are mobilized by the additional purchasing power created by the budget deficit. Only when these reserves are exhausted do you get the fatal onset of inflation.

But there is a snag. In order for the budget deficit not to fuel inflation before full employment is reached, direct taxes must increase in the same proportion as income.

Given that the bourgeoisie prefers to buy state bonds rather than pay taxes, and that tax evasion by the bourgeoisie is endemic, the higher tax burden implied by Keynesian policies falls on the workers.

As the public debt grows, servicing this debt eats up a growing part of public spending, so there is a tendency for the budget deficit to grow without any corresponding beneficial effects on employment.

So in the end Keynesian expansion tends to undermine itself through growing inflation and diminishing returns from the initial budget deficit-driven “push;” a new recession is the result. And the growing tax burden tends to redistribute income towards the bourgeoisie.

The historical balance sheet of Keynesian policy is clear. The most extensive experiment, Roosevelt's New Deal in the United States during the 1930s, ended in failure.

Despite the rise in public spending, it ended in the crisis of 1938 when unemployment reached 10 million. It was the massive rearmament thanks to the war which reduced mass unemployment.

There is something bizarre in the way in which neo-liberal dogmatists contrast their 'supply-side' policies to those based on creating demand through budget deficits. Never, in fact, have budget deficits been higher than under the neo-liberals' champion Ronald Reagan.

The same is true to a large extent of the reign of Mrs. Thatcher. They implemented record-breaking neo-Keynesian programmes while all the time professing quite the opposite faith. The real debate was not about the size of the budget deficit but what it was to be used for.

The facts speak for themselves. Reagan/Thatcher neo-Keynesianism has brutally reinforced the austerity offensive everywhere. Social spending and spending on infrastructure have been cut; arms expenditure has expanded massively in the USA and Britain and to a lesser extent in Japan and Germany.

Subsidies to private enterprise have increased. Unemployment and widening social inequalities have been stimulated. In the last 20 years the number of unemployed in the OECD countries has risen fourfold.

The overall social effect has been disastrous. You can learn in any college course on economic development that the most productive long-term investments are those in education, public health and infrastructure.

However, the neo-liberal dogmatists overlook this elementary truth when they approach problems from the point of view of an 'equilibrium' which must be re-established at any cost. Their favourite targets for cuts are precisely education, health care, social security and infrastructure, with the inevitable harmful effects, including on productivity.

Does this mean that socialists prefer traditional Keynesianism and the welfare state to the poisonous cocktail of monetarism and neo-Keynesianism currently on offer? If our answer is positive, it must be heavily qualified.

Traditional Keynesianism implies various forms of the exercise and division of power within the framework of bourgeois society. This leads to various forms of social contract and consensus with those who currently hold economic power, on their terms.

This is a purely one-way consensus and it runs counter to the interests of the working class. Traditional Keynesianism is only the lesser evil in that compared to a deflationary policy insofar as it promotes an immediate and rapid fall in unemployment.

However, in present conditions neo-Keynesianism is leading to an increase in unemployment and marginalization of growing sections of the population, with all sorts of reactionary consequences.

Furthermore, advocates of traditional Keynesian policies have to deal with a fundamental awkward fact; the effectiveness of their approach is being greatly reduced by the growth in the power of the multinational corporations. While of course it is ridiculous to say that state intervention today is powerless, it is of course much less powerful than during the 1930s and 1950s.

Faced with the growth of transnational enterprises, the national state is no longer an adequate economic instrument for the dominant factions of the bourgeoisie. Thus, an effort is being consistently made to substitute supranational institutions for it, the classic case being the various institutions of the European Community.

But many obstacles have to be overcome if supranational institutions are to take on the characteristics of a real supranational state, for example in Europe.

European unification remains suspended between a vague confederation of sovereign states and a European federation with some of the characteristics of a state, with a single currency, a central bank, a common industrial and agricultural policy, joint army and police forces and, finally, a central government authority.

In the process of European capitalist unification there is a time bomb, which is beginning to explode in the strikes in Italy and Greece. It is the simple fact that the 'budgetary stabilisation' required for monetary union will have an enormous deflationary and austerity effect. This in itself should be cause enough for the workers' movement to reject the Maastricht treaty.

Maastricht offers nothing more than an excuse for a continuation and toughening of austerity policies. It is more vital than ever to continue the fight against it.
