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Marx, Kalecki, and Socialist Strategy

By John Bellamy Foster
April 1, 2013

A historical perspective on the economic stagnation afflicting the United States and the other advanced capitalist economies requires that we go back to the severe downturn of 1974–1975, which marked the end of the post-Second World War prosperity. The dominant interpretation of the mid–1970s recession was that the full employment of the earlier Keynesian era had laid the basis for the crisis by strengthening labor in relation to capital.1 As a number of prominent left economists, whose outlook did not differ from the mainstream in this respect, put it, the problem was a capitalist class that was "too weak" and a working class that was "too strong."2 Empirically, the slump was commonly attributed to a rise in the wage share of income, squeezing profits. This has come to be known as the "profit-squeeze" theory of crisis.3

Monthly Review played a key role in introducing a radical variant of the "full-employment profit squeeze" perspective in the United States by publishing, as its Review of the Month in October 1974, Raford Boddy and James Crotty's seminal article "Class Conflict, Keynesian Policies, and the Business Cycle."4 This article highlighted the well-known fact that wages and unit labor costs normally rise near the peak of the business cycle, signaling the collapse of the boom. The authors went on, however, to suggest that the increase in the wage share at full employment accounted to a considerable extent for the major economic decline then occurring. "Capitalists," they wrote, "have more than their class instinct to tell them that sustained full employment is manifestly unsound…. [T]he maximization of profits makes it necessary to avoid sustained full employment." In doing so they contrasted their views to those of the great Polish Marxian economist Michał Kalecki, along with Josef Steindl and Howard Sherman.5

For Kalecki, the power of labor to increase money wages—although present to a minor extent in the normal business upswing—was not a significant economic threat to capital even at full employment due primarily to the pricing power of firms. Hence, if the system neglected consistently to promote full-employment through the stimulation of government spending this was not to be attributed to economic reasons per se, but rather to the

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political threat that permanent full employment would represent to the capitalist class. With "the sack" no longer available, the overall social power of the capitalist class would be diminished. The "rise in wage rates resulting from the stronger bargaining power of the workers," he observed, "is less likely to reduce profits than to increase prices and thus affects adversely only the rentier interests. But 'discipline in the factories' and 'political stability' are more appreciated by the business leaders than are profits. Their class instinct tells them that lasting full employment is unsound from their point of view." It was in this context that he introduced his famous notion of the "political business cycle," whereby the capitalist state would alternate between promoting full employment and balanced-budget austerity, generating a "controlled under-employment."

In sharp contrast to this argument of Kalecki's, Boddy and Crotty claimed that as the economy approached full employment a rising wage share was generated, sharply threatening capitalist profits themselves, and leading to structural economic crisis. The "economic effects of the business cycle," they contended, then serve to "reinforce the socio-political aspects stressed by Kalecki."[7] For these authors, as for most economic analysts, the principal cause of the mid–1970s slump was a wage-induced profit squeeze. The notion of a profit squeeze arising as the economy approached full employment was therefore turned into a more general theory of economic crisis and even stagnation.[8]

The late 1970s and '80s saw the triumph of monetarism, supply-side economics, and other forms of free-market conservatism or neoliberalism. Establishment economics reverted to pre-Keynesian austerity views, resurrecting Say's fallacious Law of Markets that supply creates its own demand—previously discredited by Keynes (and before that refuted by Marx). From a Say's Law perspective, the capital-accumulation process could not falter of itself but only as a result of external trade union or government interference.

All of this meant the restoration of the fundamental economic ideology of the capitalist class. As early as 1732 Sir William Pulteney had declared in the British House of Commons: "It is now a universal complaint in the Country that high Wages given to Workmen is the chief Cause of the Decay of our Trade and Manufacturers; our Business then is, to take all the Measures we can think of, to enable our Workmen to work for less Wages than they do at present."[9] So deeply ingrained are such views in the world of business and finance that one influential financial strategist, Eric Green, global head of

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research for rates and foreign exchange at TD Securities, went so far as to contend in 2012—in the midst of the current period of high unemployment, slow recovery, and increasing income disparity—that U.S. corporations were being threatened by a "labor-cost squeeze on their profit margins," which "could slow future job gains."10

But if adherence to a profit-squeeze perspective is naturally to be expected on the right, the same is hardly true for the left. Nonetheless, a number of notable radical theorists insisted in the mid–1980s that the "possibility" that the neoliberal strategy of wage repression might prove successful in reviving long-term accumulation could not "be ruled out altogether."11 More recently, in an attempt to explain the historical-economic roots of the Great Recession, a 2009 article in *Dollars and Sense* argued that it was sheer economic necessity that drove capital in the Reagan period to overturn the "'full employment profit squeeze'…. Like the New Deal of the 1930s, the Reagan era laid the groundwork of a new set of relatively stable framework institutions. The so-called neoliberal social structure of accumulation, monstrous though it was, functioned as a framework for capital accumulation and economic growth for nearly three decades."12

Some economic analysts on the left, however, rejected the profit-squeeze view from the start. Although they had given prominence to this perspective by publishing Boddy and Crotty's article, *Monthly Review* editors Harry Magdoff and Paul Sweezy belonged to the same broad Marxian theoretical tradition as Kalecki and Steindl. For these thinkers the main economic contradiction of monopoly-capitalist accumulation in the post-Second World War period was seen as lying on the demand side rather than the supply side, reflected in a tendency to underutilization of productive capacity associated with problems of surplus absorption endemic to the system. In this view the vast actual and potential economic surplus (surplus value) generated within production under the regime of monopoly capital exceeded the outlets for capitalist consumption and investment. The result was a tendency to economic stagnation manifested in slow growth, high unemployment, and excess capacity. Here the problem was the opposite of profit-squeeze theory: capital was too strong, labor too weak.

In this perspective, the prosperity that marked the post-Second World War years was seen as a temporary, historical departure from the normal state of stagnation that characterized accumulation under monopoly capitalism. The so-called golden age of the 1950s and '60s could be attributed to a number of special historical factors, including: (1) the huge consumer liquidity built up

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during the war; (2) the rebuilding of the war-devastated European and Japanese economies; (3) Cold War military expenditures (which included two regional wars in Asia); (4) a second wave of automobilization of the U.S. economy; and (5) a vast expansion of the sales effort. By the late 1960s, however, most of these historical stimuli had waned. Without new epoch-making innovations on the scale of the steam engine, railroad, and the automobile, and without new props to private accumulation, the economy would increasingly be mired in a condition of long-term slow growth.

If the monopoly-capitalist economy managed nevertheless to avoid a deep stagnation in the 1980s and '90s, it was not because of the advent of a new stable "framework for capitalist accumulation" in the Reagan period, but because of a financial explosion that had begun in earnest by this time, drawing upon the enormous economic surplus in the hands of capital. What Sweezy was to call "the financialization of the capital accumulation process" thus operated as a countervailing influence that lifted the economy—which was also boosted by increased military spending.15 But the debt overhang resulting from financialization, Magdoff and Sweezy observed, would eventually be so great that it would overwhelm the state's ability to intervene effectively as a lender of last resort. The bubble would burst, and a deep stagnation would arise.16

These two perspectives, the profit squeeze theory and the theory of "overaccumulation" and stagnation, represented very different assessments of the 1974–1975 crisis and of the likely long-run trajectory of the U.S. economy.17 As it turned out, empirical trends were not kind to the profit-squeeze approach. Not only has the deepening economic stagnation of the last four decades been accompanied by a declining, not a rising, share of labor in income, but also there are reasons to doubt the significance of an increasing labor share even in the context of the years immediately leading up to the 1974–1975 crisis. Rather the small, but perceptible, rise in labor's share of income in the late 1960s and early '70s has been shown to be nothing more than the result of a brief expansion of the share of government employment in the economy. There was no significant wage squeeze on profits in the private sector in these years.18 What was thought to be a mountain turned out to be a molehill—or less.19

These empirical weaknesses of the profit-squeeze theory are to be viewed against the larger background of its general incompatibility with the Marxian theory of accumulation. This can be seen in the critiques of the profit-squeeze perspective developed by Marx and Kalecki and the more straightforward

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socialist strategic outlooks they were able to promote as a result. The main thrust of Marxian crisis theory has always been opposed to the profit-squeeze view, which tends to dampen the aspirations of the working class. In this regard what Marx called "the political economy of the working class" is far superior to the political economy of the capitalist class.

Marx and Kalecki

In 1865 Marx entered into a debate within the General Council of the First International on the effects of a general rise in money wages, in which he sought to counter the notion—promoted by some representatives of the working class at the time—that an increase in wages would generate an economic crisis and higher unemployment. In his talk to the General Council, known today as *Value, Price and Profit,* Marx illustrated the problem by dividing consumption goods into two departments. (This implicitly introduced a three-department schema of reproduction—with Department I as investment goods, Department II as wage goods, and Department III as luxury goods or capitalist consumption goods.) Adopting the assumption that workers spend their wages simply on wage goods or necessities (Department II), Marx illustrated the immediate effect of a general increase in money wages by explaining that the higher wages would entail a shift in demand from non-wage goods (Departments I and III) to wage goods (Department II), leaving total output and employment in the economy unchanged, but reducing overall profits.

Although a general rise in the money-wage level, Marx indicated, would lead to a decrease in the profit share, the economic effect would be minor since capitalists would be enabled to raise prices "by the increased demand." Indeed, workers generally pushed for higher wages only in defensive actions in response to previous changes in the economy engineered by capital. Hence, their wage demands were normally aimed at restoring a previous balance—otherwise average wages would fall below the value of labor power.22 Moreover, higher wages would simply encourage capital to further cheapen the unit cost of labor power through productivity enhancements and the revolutionization of the means of production, raising the rate of exploitation and profits, while at the same time discharging redundant labor. All of this would have the effect of lowering the wage share in the long run. The "industrial war" of competition, Marx observed, "has the peculiarity that the battles in it are won less by recruiting than by discharging the army of

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workers. The generals (the capitalists) vie with one another as to who can discharge the greatest number of industrial soldiers."23

Thus Marx argued that it was only under very exceptional conditions, such as the early nineteenth-century railway boom, that a wage-push profit squeeze which was more than merely fleeting would emerge. In such a case the accumulation process would result in "an extraordinary addition of paid labour" so that average wages rose above the value of labor power, reducing the rate of exploitation. Nevertheless, the normal tendency of capitalism, he insisted, was towards "a tendential rise in the rate of surplus-value, i.e. the level of exploitation of labour." Even the introduction of a shorter, ten-hour day, Marx emphasized, did not substantially raise employment and the wage share.

To be sure, in the opening section of his chapter on "The General Law of Accumulation" in the first volume of *Capital*, Marx appeared to contradict this by suggesting that a wage-squeeze on profits could occur as a result of rapid accumulation and a scarcity of labor. But this was based on the adoption as a mere logical step in his argument of the restrictive assumption—introduced into the very title of that section—that technical change (the organic composition of capital) was constant. Even then it remained true that the wage level was determined by rate of accumulation—not the other way around. Hence, "at the best of times" for labor, he wrote, the reduction in the relative share of unpaid labor or surplus value, i.e., a reduction in the rate of exploitation, "can never go so far as to threaten the system itself."25 An increase in the wage share at the peak of the business cycle was for Marx merely "a harbinger of crisis," never the cause.26

Once the artificial assumption of no technological change was removed (in the subsequent sections of that chapter), the constant replenishing of the reserve army of the unemployed by means of the incessant revolutionization of the means of production was seen as holding down wages and working-class aspirations within the system. All of this ensured that a rising rate of exploitation remained the normal tendency (or general law) of the capital-accumulation process.27 With respect to the struggle over wages, production, and employment Marx exclaimed: "This very necessity of *general political action* affords the proof that in its merely economic action capital is the stronger side."28

Kalecki was to replicate the general form of Marx's argument in his article, "Class Struggle and the Distribution of National Income," published posthumously in 1971. Based on the three-department model, Kalecki argued

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that a general increase in wages under conditions of perfect or free competition would have no effect in the short period on the overall volume of production or employment. However, Kalecki carried the logic beyond Marx, demonstrating—on the basis of the assumption that "the volume of investment and capitalists' consumption are determined by decisions taken prior to the short period considered and are not affected by the wage rise during that period"—that "no absolute shift from profits to wages" would occur as a result of a general increase in wages. The increased losses to the capitalist-consumption-goods and investment-goods departments due to higher wage costs would be entirely balanced out by the increased profits in the wage-goods department.

It was quite otherwise, Kalecki argued, with respect to a monopoly-capitalist economy, characterized as it was by monopolistic pricing and excess capacity. Here it was possible for trade unions in monopolistic industries with very high price markups to bargain for higher wages, leading to a small increase in the wage share of income. Given excess capacity, this would have the effect of increasing, rather than decreasing, overall effective demand and employment. Moreover, in the long term the larger demand and higher aggregate profits as the economy approached full employment would feed profit expectations counteracting any decline in investment due to the increase in the wage share.

It is true that wage increases under these circumstances could lead to inflation. But inflation would ultimately be restrained, Kalecki argued, by the narrow limits within which large corporations could raise prices without breaking down their monopolistic barriers to entry and generating competition from other industries.30 Corporations would thus not be able to pass on the increases in wage costs fully to consumers—a fact that would have a positive effect on the economy as a whole. "Kalecki," as Joan Robinson said, "diagnosed inflation as an expression of class warfare."31 The main victims of such an inflationary spiral, he argued, would not be workers or capitalists but rentiers.32 In this way, he anticipated the main features of the stagflation (stagnation plus inflation) period of the late 1970s.

Kalecki contended in 1944, in an analysis with which Keynes agreed, that the main routes to full employment were either by means of increased government spending or by income redistribution. The income-redistribution path to full employment, he argued, necessitated *politically* "squeezing profit margins" through taxes on capital.

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Hence, for Kalecki the profit-squeeze doctrine that "when wages are raised, profits fall *pro tanto*" (i.e., to that extent) was "entirely wrong."34 Not only was a profit-squeeze crisis resulting from an increase in wages a nonexistent problem at the level of the economy as a whole in a perfectly or freely-competitive capitalist economy, but the limited increase in the wage share that sometimes occurred under monopoly capitalist conditions bolstered aggregate demand. A rise in wages, to the extent that this was possible, thus constituted an economic path *towards*, not away from, full employment and higher income growth.35

The French Popular Front and Socialist Strategy

Kalecki's views on the profit-squeeze argument, the political business cycle, and socialist economic strategy were rooted historically in his close observation of the French Popular Front government led by Leon Blum in 1936–1937. Kalecki had spent the summer of 1937 in Paris witnessing developments there. In what came to be known as the "Blum experiment," a concerted attempt was made to implement a forty-hour working week, two weeks of paid vacation time for all workers, and collective bargaining rights. As part of these reforms the Popular Front initiated a substantial increase in the money wages of manual workers, which rose by about 60 percent over the course of a year. This increase in money wages did not, however, have a negative effect on overall output and employment, since wholesale prices were raised proportionately. However it did produce substantial net benefits both for manual workers and large capitalists, and for the industrial sector in general—at the expense of rentiers and other income groups. Yet, despite the fact that big capital had significantly gained from the redistribution toward industry that the wage increase had brought about, it allied itself with rentiers to resist the wage increase, complaining of a profit squeeze. The Blum government eventually succumbed to these pressures, leading to a fatal dampening of the aspirations of workers.

Based on this assessment of the Blum experiment, Kalecki argued, like Marx before him, that workers should consistently push for higher wages, whenever economic conditions made this possible—if only to counter the cuts they experienced in slumps. Nevertheless, even at full employment and at the peak of labor's strength, "the fight for wages," Kalecki wrote, "is not likely to bring about fundamental changes in the distribution of national income"—the power of the capitalist class in the economic struggle and its overall social power was simply too great. For fundamental changes in distribution to

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occur, taxation of capital would need to be introduced by the state. More importantly, full employment, rather than being viewed as an end in itself, should be utilized as the strategic basis from which labor could launch an all-out attack on the bourgeois rules of the game. Indeed, it was this possibility that made a full-employment state so dangerous to the capitalist class. Kalecki therefore contended that the capitalist class would politically resist a long-term path of full employment, fighting tooth and nail in response to what it viewed as a potential threat to its social power.

The strategy that Kalecki proposed in the 1940s, at a time when the British Labour Party was growing strong (and at a time of unprecedented total employment due to wartime conditions), was to break with the political business cycle—whereby capital could be expected to respond to anything approaching full employment with austerity policies. Workers should seek to surmount the political business cycle by using full employment to increase their social power. In a 1942 article on "The Essentials of Democratic Planning," written for *Labour Discussion Notes*, Kalecki, then working at the Oxford Institute of Statistics, argued that in any program of social transformation the initial condition that had to be established was guaranteed full employment and economic security for workers. This would provide, he argued, the "mood of determination" and the "*self-confidence*amongst the workers and the lower strata of society" that would allow them to engage in a "heightened tempo" of social change and bring into being the institution of "democratic socialist planning." Once "the sanction of the sack" or Marx's industrial reserve army was "no longer operative," workers would increasingly challenge management, generating the social force for a radical planning movement.

The principal strategic aim of the new Labour government would need to be directed at "*changing the power relations in society*, by capturing the key centres of the economic, social, and political power of the strongest capitalist groups." Kalecki argued for "full central public control of banking, and finance, investment and foreign trade, and possibly the allocation of basic raw materials and commodities." This required "direct social control" of key industrial sectors, either through "full nationalization" or the establishment of "some kind of public corporation." The most important requirements here were "that those who direct and manage the [public] corporation have no financial interest other than their salaries," and that if there were any private investors they be allowed "no control over policy or management."

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All of this, Kalecki recognized, would be strongly resisted by capital, which would use all of its means, including sabotage, to block any changes that threatened its class position. Nevertheless, he argued that if the Labour Party were to exert its full strength at the end of war it would be able to generate a full-employment economy, turning this into a means of further ratcheting up working-class power. "This period, which may be short, will be the one of maximum opportunity for Labour, when full employment has generated a self-confident feeling among workers. Then will be the time to use Labour's political power to the full; to strike boldly and strike hard. This will be the moment to the lay the basis for that continuing social revolution without which democratic socialist planning will remain a sterile dream."

Kalecki's political-economic strategy for social change was aimed at fatally undermining what Marx had called capital's main "lever" for the disciplining the working class: the existence of a relative surplus population or industrial reserve army. By removing this lever from capital, it would be possible to alter the rules of the game.40 The maximum response of capital in this class struggle, meanwhile, would be to attempt to generate what Steindl later called "stagnation as policy," opposing all state policies to check unemployment and even stagnation, and increasing the reserve army of labor in order to preserve the social power of the capitalist class—even at the expense of total profits.41

As it turned out in Britain in the 1940s and thereafter, Labour came to power but did not—even during its maximum influence—exert its full power in a project of class transition in line with the course that Kalecki had proposed.42 With the rise of Thatcherism in Britain and Reaganism in the United States in the 1970s and '80s, capital itself, as Steindl observed, sought to break with the political business cycle, putting in its place the regressive "political trend," now known as neoliberalism. This was an attempt to turn back the clock to a pre-Keynesian-style economic regime aimed at increasing unemployment, in order to squeeze wages and impose greater class discipline on workers. At the same time a financially driven casino economy was opened up for the benefit of capital.43 Full employment and wage inflation were depicted once again as threats to prosperity, in what Steindl referred to as "the return of the Bourbons" in economic theory.44

The economic effects of this restoration of pre-Keynesian economics are evident in the trends in the United State over the last four decades or so. The percentage of production and nonsupervisory workers in total private-sector employment has remained constant at about 83 percent of all workers in both

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1965 and 2011. Nevertheless the share of such workers in total private-sector payroll dropped from 76 percent in 1965 to 56 percent in 2011, while their share of GDP fell over the same period from over 30 percent to about 20 percent.45 Under these conditions even a mainstream economist such as Paul Krugman was compelled to declare in 2012, that we are "back to talking about capital versus labor…[an] almost Marxist sort of discussion."46Moreover, in trying to discern why full-employment policy is off limits at the top of U.S. society even in the context of deep stagnation and growing inequality, Krugman in his 2012 book *End This Depression Now!* could find no other rational explanation than the one offered by Kalecki—namely that capital saw full employment as a threat to its total social power.47

In Kalecki's view, the capitalist class' entrenched opposition to long-run full employment through government intervention meant that workers had no recourse but to push forward on their own in the struggle for higher wages and full employment and to seek on that basis a full transition to socialism. "Labour," he warned in 1942,

> must have no illusions about the great fight that will have to be waged against these [capitalist interest] groups. They will resist fiercely because what is at stake is not so much their profits as their personal and social power, which takes two forms: power in society as a whole, and power over workers' industry. As long as the first form of power remains, all the efforts of the workers in the factories and through the trade unions to diminish the second form of power can only have limited success. The fight for workers' rights in industry and for more effective workers' representation through such things as works' councils and production committees is, of course, of very great importance and…it has a vital part to play in the *total* struggle against the capitalists. But it can never be a *substitute* for the necessary political fight to destroy the power wielded over society as a whole by the great capitalist interest-groups….
>
> Their power is in fact a *class* power and, as long as this class power remains unbroken, the ability of the leading capitalist groups to run things in their way—and, at worst, to sabotage—is enormous….It can only be broken by destroying not merely their political influence, but what is its real basis, their economic power in the great productive forces over which they exercise practically unchallenged control….

The important thing, however, is that Labour should not be afraid of the consequences of the social revolution within industry, but should make itself master of the situation, not by trying to damp down the mood of the workers,

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as did the leaders of the Popular Front in France, but by directing it against the opponents of democratic planning.

Kalecki's political-economic analysis here was based, as he explained, on an "isolated" capitalist economy.49 As historical events unfolded, not only did the Labour Party fail to act decisively in the working-class interest, but also the increased militarism and imperialism during the Cold War, as he was later to observe, altered the picture considerably. Increased armaments spending produced a higher level of employment than in the pre-war years, while at the same time incorporating a considerable part of the working class within a regressive nationalist-imperialist and chauvinistic project—thereby undermining labor's capacity to unite to promote its genuine interests in the class struggle.50 In the highly globalized monopoly-finance capitalism of today the contradictions facing the working-class movement are even more complex. Capital in the form of multinational corporations is increasingly mobile globally and able to divide and conquer labor internationally, holding down wages and unit labor costs worldwide as workers of different nationalities are pitted against each other.51

Nevertheless, Kalecki's arguments on not accepting the economic rationale of the system and insisting on the need to wrest social power from the capitalist class remain crucial today. The danger of the profit-squeeze theory of economic crisis under capitalism has always been that it suggested to workers that the pursuit of their own democratic, egalitarian aspirations led directly to economic slowdown, worsening their situation. As Kalecki put it, "There are certain 'workers' friends' who try to persuade the working class to abandon the fight for wages in its own interest, of course. The usual argument used for this purpose is that the increase of wages causes unemployment, and thus is detrimental to the working class as a whole."52 This position is visible in the United States today with the debate over whether to introduce a paltry increase in the minimum-wage.53

The arguments that Marx and Kalecki leveled against the profit-squeeze theory of crisis have proven correct not only in their day but ours as well. Decade after decade we have seen a declining share of wages (and total compensation) in U.S. GDP—with the share of the bottom 80 percent of private-sector workers plummeting. At the same time the share of GDP represented by management, supervisory, and other nonproduction employees in the private sector has been rising dramatically. Meanwhile, capital's overall share of income has grown by leaps and bounds. Rather than

a stable framework of accumulation, this has led to stagnation, financial instability, and deteriorating conditions for workers.

Kalecki's political-economic conclusions were in line with those of Marx, who declared, in his opposition to the profit-squeeze argument, *that the struggle of workers at every point along the way was a rational one*, reflecting the superiority of the political economy of the working class over the political economy of capital. Nevertheless, the ultimate goal of the working-class struggle was not to strive for this or that gain within the system, but rather to replace the capitalist system with a socialist one controlled by the direct producers. As Marx stated in the closing sentence of *Value, Price and Profit*: "Instead of the *conservative* motto: '*A fair day's wages for a fair day's work!*' they [the working class] ought to inscribe on their banner the *revolutionary* watchword: '*Abolition of the wages system!*'"

Notes

1. Paul A. Samuelson, the leading representative of mainstream Keynesianism (or the so-called neoclassical-Keynesian synthesis) was to concede that Keynes's "prescription in its most simple form self-destructed, as the obligation to run a full-employment humanitarian state caused modern economies to succumb to the new disease of stagflation—high inflation along with joblessness and excess capacity." Samuelson, "The House that Keynes Built," *New York Times*, May 29, 1983.
2. David M. Gordon, Thomas E. Weisskopf, and Samuel Bowles, "Power, Accumulation, and Crisis," in Robert Cherry, et. al., *The Imperiled Economy* (New York: Union for Radical Political Economics, 1987), 43; Alain Lipietz, "Behind the Crisis," *Review of Radical Political Economics* 18, no. 1 and 2 (1986): 13.
3. See Howard J. Sherman, "Inflation, Unemployment, and the Contemporary Business Cycle," in John Bellamy Foster and Henryk Szlajfer, eds., *The Faltering Economy*(New York: Monthly Review Press, 1984), 93.
4. Raford Boddy and James Crotty, "Class Conflict, Keynesian Policies, and the Business Cycle," *Monthly Review* 26, no. 5 (October 1974): 1–17. See also Raford Boddy and James Crotty, "Class Conflict and Macro-Policy: The Political Business Cycle," *Review of Radical Political Economics* 7, no. 1 (1975): 1–18.
5. Boddy and Crotty, "Class Conflict, Keynesian Policies," 4, 8. Unlike Boddy and Crotty some theorists on the left later on made the mistake of thinking that Kalecki had himself presented a profit-squeeze theory. On this erroneous interpretation see, for example, Andrew Glyn, *Capitalism Unleashed* (Oxford: Oxford University Press, 2006), 31. For a criticism of such misuse of Kalecki

see Robert Brenner, "The Economics of Global Turbulence," *New Left Review* 229 (1998): 14–17.

6. Michał Kalecki, "Political Aspects of Full Employment," in Kalecki, *The Last Phase in the Transformation of Capitalism*(New York: Monthly Review Press, 1972), 76–83, *Selected Essays on Economic Planning* (Cambridge: Cambridge University Press, 1986), 24. Steindl insisted in line with Kalecki that "a general rise or fall in money wages would not necessarily and regularly affect the share of profits, because it is the capitalists who decide the 'mark-up' which is added on to wage costs in order to arrive at the price." Josef Steindl, *Maturity and Stagnation in American Capitalism*(New York: Monthly Review Press, 1976), 236–37.
7. Boddy and Crotty, "Class Conflict," 4.
8. Boddy and Crotty were presenting the profit squeeze as an explanation of economic crisis. Others, however, went further and saw it as the source of long-term stagnation. See, for example, Gordon, Weisskopf, and Bowles, "Power, Accumulation and Crisis"; and in the British context, Andrew Glyn and Bob Sutcliffe, *Capitalism in Crisis* (New York: Pantheon, 1972).
9. Pulteney quoted in Philip Morowski, *The Birth of the Business Cycle* (New York: Garland Publishing, 1985), 15.
10. "Labor Costs a Challenge to Fed, Companies," *Wall Street Journal Marketwatch blog*, March 8, 2012, http://articles.marketwatch.com.
11. Thomas E. Weisskopf, Samuel Bowles, and David M. Gordon, "Two Views of Capitalist Stagnation," *Science and Society* 49 (Fall 1985): 259–86.
12. Alejandro Reuss, "That '70s Crisis," *Dollars & Sense*, no. 285(November–December 2009):23–24. Such thinkers argue that today's economy is characterized by a declining wage share, with the present crisis therefore having the opposite cause from that of the 1970s.
13. For a general summary of the argument on monopoly and stagnation see John Bellamy Foster and Robert W. McChesney, *The Endless Crisis*(New York: Monthly Review Press, 2012), 29–38.
14. Harry Magdoff and Paul M. Sweezy, *The Deepening Crisis of U.S. Capitalism* (New York: Monthly Review Press, 1981), 181–82.
15. Paul M. Sweezy, "More (or Less) on Globalization," *Monthly Review* 49, no. 4 (September 1997): 3.
16. Harry Magdoff and Paul M. Sweezy, *The Irreversible Crisis*(New York: Monthly Review Press, 1988), 76. On the long-term slowdown in the rate of economic growth from the 1970s to the present see Foster and McChesney, *Endless Crisis*, 3–4.
17. Magdoff and Sweezy, *Deepening Crisis*, 179.
18. Fred Magdoff and John Bellamy Foster, "Class War and Labor's Declining Share," *Monthly Review* 64, no. 9 (March 2013): 1–11.
19. Today's business-cycle research, as Sherman points out, has shown that the rise in the wage share of income at the peak of the typical business cycle is

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due not to the increase in employee income that occurs at this stage, which is at best "tiny," but rather to the fact that "wages are steady, while profit is falling." Howard J. Sherman, *The Roller Coaster Economy* (Armonk, NY: M.E. Sharpe, 2010), 52–53.

20. Karl Marx, *On the First International* (New York: McGraw-Hill, 1973), 5–12.
21. Karl Marx, *Value, Price and Profit* (New York: International Publishers, 1935), 12–16; Karl Marx and Frederick Engels, *Collected Works* (New York: International Publishers, 1975), vol. 20, 338. *Value, Price and Profit* was a talk delivered to a working class audience and was never revised by Marx for publication. It was first published as a pamphlet in 1898, edited by his daughter Eleanor. In the talk Marx did not use the formal language of departments as in volume two of *Capital*, but simply referred to the wage-goods and luxury-goods sectors as different "branches of industry." (In his reproduction schemes in volume II Marx treated Department II as subdivided between a working-class wage-goods sector and capitalist luxury-goods sector. Later Marxian theorists have commonly treated this as two separate departments: Department II and Department III, respectively.) Nor did Marx refer specifically in his talk to the investment-goods sector (Department I)—despite the fact that since this represented the accumulation of capital it was the driving force. Still, in distinguishing in *Value, Price and Profit* between the wage-goods and luxury-goods sectors there was no doubt that Marx was implicitly arguing in terms of a three-department reproduction scheme and the exchanges that would take place between the wage-goods and non-wage-goods departments. Therefore references to all three departments have been included in the explanation of the argument, without which it would be incomplete. Indeed, as we shall see below, Marx's argument on the effects of a general wage increase on the distribution between the three departments was later replicated by Kalecki.
22. Marx, *Value, Price and Profit*, 6, 56.
23. Karl Marx, *Wage-Labour and Capital* (New York: International Publishers, 1933), 45.
24. Karl Marx, *Capital*, vol. 1 (London: Penguin, 1976), 771. Karl Marx, *Capital*, vol. 3 (London: Penguin, 1981), 347; Marx, *Value, Price, and Profit*, 54–55.
25. Karl Marx, *Capital*, vol. 1, 762, 769–70, *Capital*, vol. 2 (London: Penguin, 1978), 486–87.
26. Karl Marx, *Capital*, vol. 2, 486–87. In referring to an increase in the wage share of income that occurred at the peak of every cycle as a "harbinger" of crisis (a kind of leading indicator) Marx was pointedly *not* attributing the cyclical downturn itself to this fact. Marx's pioneering approach to the business cycle (and to periodic crises as a cyclical phenomenon) was complex, emphasizing numerous factors and never worked up into a developed theory. He considered nearly all of the elements that are incorporated into contemporary business-cycle analysis, placing a strong emphasis, however, on an

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understanding of the cycle as determined by fluctuations in investment, particularly related to the renewal of fixed capital—a view which was to have a strong influence on economics in general. Marx's broad approach had much in common with Kalecki's dynamic analysis based on the mutual interaction of investment and profits, incorporating both demand-side and supply-side factors. Hence, recent attempts to reduce Marx's theory of the cycle to a wage squeeze on profits explanation have no real basis in his thought. On Marx's approach to the cycle see Marx, *Capital*, vol. 2, 264; Ernest Mandel, *The Formation of the Economic Thought of Karl Marx* (New York: Monthly Review Press, 1971), 140–53; Howard J. Sherman, *The Business Cycle* (Princeton: Princeton University Press, 1991), 70, 135–36. On Kalecki in this respect, see Sherman, *The Business Cycle*, 71–72; Michał Kalecki, *Theory of Economic Dynamics* (New York: Monthly Review Press, 1965).

27. Marx, *Capital*, vol. 1, 772–94. For theorists such as Kalecki, Steindl, Baran, and Sweezy, even the limited importance that Marx gave to the notion of a profit squeeze under competitive capitalism was an expression of the fact that, in Steindl's words, Marx did "not manage to detach himself completely" from "straightforward 'classical economics'" (meaning in this case a Say's Law perspective). An "increase in wages could never reduce profits" within the economy as a whole, Steindl pointed out, "as long as investment (and capitalist consumption) remain high." Steindl, *Maturity and Stagnation*, 237.
28. Marx, *Value, Price and Profit*, 59.
29. Michał Kalecki, *Selected Essays on the Dynamics of the Capitalist Economy* (Cambridge: Cambridge University Press, 1971), 156–59.
30. Ibid, 161.
31. Joan Robinson, "Michał Kalecki: A Neglected Prophet," *New York Review of Books* 23, no., 1 (March 4, 1976): 28–30.
32. Kalecki, *Last Phase*, 78.
33. Kalecki, *Collected Works* (Oxford: Oxford University Press, 1990), vol. 1, 374,; Keynes to Kalecki, December 30, 1944 in Kalecki, *Collected Works*, vol. 1, 579.
34. Kalecki, *Selected Essays on Dynamics*, 156. Kalecki also pointedly indicated here that this doctrine was the last refuge of Say's Law, stating: "Even though in the analysis of other phenomena Say's Law was not adhered to, at least not strictly, in this case [a money-wage increase] the preservation of purchasing power was not put into doubt."
35. Ibid, 160–64.
36. Kalecki, *Collected Works*, vol. 1, 283–84, 326–41, 563–65; *Selected Essays on Economic Planning*, 23–24. See also Gunnar Myrdal, "A Parallel: The First Blum Government 1936—A Footnote to History," in N. Assordobraj-Kula, et. al., ed., *Studies in Economic Theory and Practice: Essays in Honor of Edward Lipiński* (Amsterdam: North-Holland Publishing Co., 1981), 53–62.
37. Kalecki, *Collected Works*, vol.1, 284–85.
38. Kalecki, *Selected Essays on Economic Planning*, 19–24.

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39. Ibid, 24.
40. Marx, *Capital*, vol. 1, 784.
41. Kalecki, *Selected Essays on Economic Planning*, 24; Josef Steindl, "Stagnation Theory and Stagnation Policy," in Foster and Szlajfer, eds., *The Faltering Economy*, 179–97.
42. What the Labour Party could have achieved politically is of course subject to debate. See, for example, Ralph Miliband, *Parliamentary Socialism* (London: George Allen and Unwin, 1961); Raymond Williams, "Class Voting in Britain," *Monthly Review* 11, no. 9 (January 1960): 327–34.
43. Steindl, "Stagnation as Policy," 189.
44. Josef Steindl, "The Present State of Economics," *Monthly Review* 36, no. 9 (February 1985): 35.
45. Magdoff and Foster, "Class War and Labor's Declining Share," 8–10.
46. Paul Krugman, "Robots and Robber Barons," *New York Times*, December 9, 2012, http://nytimes.com.
47. Paul Krugman, *End This Depression Now!* (New York: W.W. Norton, 2012), 94–96, 206.
48. Kalecki, *Selected Essays on Economic Planning*, 20–24.
49. Kalecki, *Collected Works*, vol. 1, 340.
50. Kalecki, *The Last Phase*, 85–114.
51. Foster and McChesney, *The Endless Crisis*, 103–54.
52. Kalecki, *Collected Works*, vol. 1, 284.
53. For a rational, Keynesian view on an increase in the minimum wage see Paul Krugman, "Raise That Wage," *New York Times*, February 17, 2013, http://nytimes.com. For an irrational, pre-Keynesian (Say's Law) view, see James Dorn, "Obama's Minimum Wage Hike," *Forbes*, February 20, 2013, http://forbes.com. The truth is that even if Obama's proposal to raise the federal minimum wage to $9 an hour were enacted the real minimum wage (adjusted for inflation) would still be below that of 1968! Gar Alperovitz, *What Then Must We Do* (White River Junction, VT: Chelsea Green, 2013), 7.
54. Magdoff and Foster, "Class War," 10.
55. Marx, *Value, Price and Profit*, 61.

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