Keynes: A Man for This Season?

by Walden Bello - July 9, 2009

One of the most significant consequences of the collapse of neoliberal economics, with its worship of the "self-regulating market," has been the revival of the great English economist John Maynard Keynes.

Not only do his writings make Keynes very contemporary. There is also the mood that permeates them, which 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 World War I 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.

Governing the Market

Government must step in to remedy the failure of the market. This 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. Keynes argued that the market, left to itself, 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* by spending massively to create the "effective demand" that would restart and sustain the engine of capital accumulation.

As preemptive measures to stave off a depression, President Barack Obama's $787 billion stimulus package, as well as those of Europe and China, is classically Keynesian. The measure of Keynes' triumph after nearly 30 years in the wilderness is the marginal impact that Republicans, Russ Limbaugh, the Cato Institute and other species of neoliberal dinosaurs have made on the public discourse with their talk of "passing on a huge debt to coming generations."

The revival of Keynes is not, however, simply a policy matter. Two ideas have displaced the theoretical assumption of the individual rationally maximizing his or her interest from the center of economic analysis. One of these ideas driving current thinking is the pervasiveness of uncertainty in the making of decisions, which investors try to deal with by assuming (improbably) 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 Keynesian notion is 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."

Key among these animal spirits is confidence, the presence or absence of which is at the center of the collective action that drives economic 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. Investment isn't 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." Here, notes Keynes' biographer Robert Sidelsky, "is the recognizable anatomy of the 'irrational exuberance,' followed by blind panic, which has dominated the present crisis."

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. He saw economics 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' 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 doubters are not limited to neoliberal diehards.

Limitations of Keynsianism

For one thing, Keynesianism is mainly a tool for reviving national economies, and globalization has severely complicated this problem. In the 1930s and 1940s, reviving industrial capacity in relatively integrated capitalist economies revolved around the domestic market. Nowadays, with so many industries and services 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 has 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 United States 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 demands radical structural reform — the kind that involves 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' day — didn't elicit much concern in his thinking.

Third, Keynes' model of managed capitalism merely postpones rather than provides a solution to one of capitalism's central contradictions. The underlying cause of the current economic crisis is overproduction, in which productive capacity outpaces the growth of effective demand and drives down profits. The Keynesian-inspired activist capitalist state that emerged in the post-World War II period seemed, for a time, 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. The resulting stagflation — the coincidence of stagnation and inflation — swept throughout the industrialized world in the late 1970s.

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 post-war capitalism, leading instead to today's economic collapse. It is not, however, likely that a return to pre-1980's Keynesianism is the solution to capitalism's persistent crisis of overproduction.

The Great Lacuna

Perhaps the greatest obstacle to a revived Keynesianism is its key prescription for revitalizing capitalism in the context of the climate crisis, namely the revving up of global consumption and demand. 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 environmentally damaging consumption or overconsumption in the North. All the talk of replacing the bankrupt American consumer with a Chinese peasant engaged in American-style consumption as the engine of global demand is both foolish and irresponsible.

Given the primordial drive of the profit motive to transform living nature into dead commodities, capitalism is unlikely to reconcile ecology and economy — 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 situation, but it does not provide the key to surmounting it. Global capitalism has been laid low by its inherent contradictions, but a second bout of Keynesianism is not what it needs. 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 — is 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. To solve our problems, we don't just need Keynes. We need our own Keynes.