



Keynes and Kalecki on future perspectives

Keynes e Kalecki sobre perspectivas futuras

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Resumo

Keynes e Kalecki tinham perspectivas diferentes quanto às perspectivas futuras para a economia capitalista. Keynes considerava que o aumento da produtividade permitiria eventualmente mais lazer destinado a atividades culturais. No entanto, Kalecki reconhecia que, numa economia capitalista, os desafios do emprego sempre chegariam na frente, com pleno-emprego beneficiando os trabalhadores diretamente, mas com os empregadores se opondo ao pleno-emprego porque fragilizaria a disciplina de trabalho. Keynes estava aberto a uma variedade de formas de se assegurar o pleno emprego, enquanto Kalecki argumentava que isso deveria beneficiar o nível de vida da massa da população. O trabalho de Kalecki sugere um caminho político, através do pleno emprego, para o socialismo.

Palavras-chave: Keynes; Kalecki; pleno emprego; distribuição de renda; capitalismo.

Abstract

Keynes and Kalecki had different perspectives on the future prospects for the capitalist economy. Keynes considered that rising productivity would eventually allow more leisure to be devoted to cultural activities. However, Kalecki recognised that in a capitalist economy, issues of the employment would always come to the fore, with full employment benefitting workers directly, but employers opposing full employment because it undermines labour discipline. Keynes was open to a variety of ways of securing full employment, whereas Kalecki argued that it should benefit the standard of living of the mass of the population. Kalecki's work suggests a political road, through full employment, to socialism.

Keywords: Keynes; Kalecki; full employment.

JEL: E11, E12, J50, P16.



Introduction

In 1930, Keynes published his well-known article 'Economic Perspectives for our Grandchildren'. Amid the turmoil created by the Great Crash, but unaware yet of how depression would grip the world, Keynes laid out a future in which growing productivity would satisfy consumption needs and give everyone more leisure in which to enjoy the finer things of life (Keynes 1930/1972). This became regarded as his vision for a future society: Thanks to capital accumulation '... in the long run... mankind is solving its economic problem' leaving only the problem of 'how to occupy the leisure, which science and compound interest will have won...' The only obstacle was 'the love of money as a possession' which would get in the way of productive investment. This enjoyment of leisure would be the new purpose of life (ibid.).

Writing this, Keynes was returning to his lifelong aesthetic interests. He made no secret of them, and they were identified clearly by his teachers at Cambridge. Shortly after he came to Cambridge in 1902 to study mathematics, he was invited to join the secret discussion club, the Apostles, where he met the philosopher and mathematician Bertrand Russell, then a Fellow of Trinity College. In his Autobiography, Russell was later to give a penetrating portrait of the future economist: 'The tone of the generation some ten years junior to my own was set mainly by Lytton Strachey and Keynes. It is surprising how great a change in mental climate those ten years had brought. We were still Victorian; they were Edwardian. We believed in ordered progress by means of politics and free discussion. The more self-confident among us may have hoped to be leaders of the multitude, but none of us wished to be divorced from it. The generation of Keynes and Lytton did not seek to preserve any kinship with the Philistine. They aimed rather at a life of retirement among fine shades and nice feelings, and conceived of the good as consisting in the passionate mutual admirations of a clique of the élite.' (Russell 1951, p. 70).

Russell recognised that Keynes matured out of this self-regard: 'From this atmosphere Keynes escaped into the great world... Keynes's escape, however, was not complete. He went about the world carrying with him everywhere a feeling of the bishop in partibus. True salvation was elsewhere, among the faithful at Cambridge. When he concerned himself with politics and economics he left his soul at home... There was one great exception, *The Economic Consequences of the Peace*...' (Russell 1951, p. 71)

In the Cambridge of Keynes and Russell, College 'fellows' needed to have the support of family wealth or private income in order to get by. Without such income, Keynes's friend and ideological rival, Ralph Hawtrey had to toil through his working life as an economist in Her Majesty's Treasury, as indeed Keynes also had to, until he earned enough in foreign currency speculation to leave the Treasury in order to write *The Economic Consequences of the Peace*.

It is perhaps this attachment to Cambridge that accounts for the major lacuna in Keynes's 'Economic Possibilities for our Grandchildren'. In this article, Keynes attributed the crisis of 1930 and the insecurities of our time to the excessive love of wealth, and specifically



love of money. There is no mention in the essay of the distribution of income in capitalism, the central question of political economy since the eighteenth century. Six years after his essay, Keynes acknowledged this gap in the first sentence of the concluding chapter of his *General Theory*: 'The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and income.' This gap was filled by the economic theory of Michał Kalecki.

While Keynes was concerned with the future that awaited a couple of generations from now, Kalecki considered a much more immediate future in his essay on 'Political Aspects of Full Employment' perhaps the most widely read of his works today '... a recognised masterpiece that is still widely quoted by economists of widely different orientation...' (Vercelli 2013).

Kalecki's glance at the future was written in the middle of the Second World War, a time of much greater uncertainty and turmoil than the circumstances that gave rise to Keynes's reflections. In particular, Kalecki wrote at a time of full employment caused by the mobilization of all resources in order to win the war. The question that Kalecki wanted to address was whether full employment could survive a transition to peace, in which business opposition to full employment would be much more explicit. In a 'capitalist democracy' popular demand for full employment could not be kept off the political agenda. But business would use its power to demand the use of unemployment ostensibly for the purpose of maintaining financial and monetary stability, actually to maintain labour discipline. The result of these conflicting pressures would be a political business cycle.

Kalecki expected that, in a slump, with large-scale unemployment, the government would undertake debt-financed investment. But, as the boom proceeded, opposition would arise from business leaders anxious about the effects of full employment on labour discipline, while rising prices in the boom would squeeze the real incomes of rentiers making them 'boom-tired'. 'In this situation a powerful alliance is likely to be formed between big business and rentier interests, and they would probably find more than one economist to declare that the situation is manifestly unsound.' Not that the alliance was opposed to full employment in principle. Rather, it would argue that full employment would be more effectively achieved through private investment if only the government would get its finances in order, abandoning deficit financing, and workers embrace factory discipline. In this way the alliance would force the government to return to fiscal orthodoxy. As a result, the economy would decline into recession. In its turn, the recession would highlight the attractions of full employment, so that eventually expansionary policies are resumed.

There is something uncanny about the way in which this argument about 'sound finance' recurs through the eight decades since Kalecki wrote about this. Today, rising prices are the pretext for enforcing departures from full employment. Under inflation-targeting, control over inflation is contracted out to central banks. This arrangement places central banks at the forefront of demands for sound finance and labour discipline, where they are urged to deflate economies until unemployment can stabilise prices. As recently



noted by ‘a former central banker and a professor of finance at the University of Chicago’s Booth School of Business, ‘... without some slack in the labour market, the Fed[eral Reserve] cannot feel comfortable pausing its efforts [to deflate the economy].’

‘To get the job done, therefore, the Fed has to force markets to abandon their belief that disinflation will involve only mild job losses. Indeed a recent study Stephen Cecchetti and others suggests that every disinflation since the 1950s has involved a significant rise in unemployment.’ (Rajan 2023. The Cecchetti study referred to is Cecchetti et al. 2023.)

In 1943 Kalecki noted that such a fiscally-induced cycle had already happened in the United States in 1937-38, when a drastic reduction in the federal budget deficit had broken the economic recovery. However, the resulting recession had forced the government to return to the previous programme of fiscal stimulus. Kalecki envisaged the political business cycle as a milder version of the nineteenth-century capitalist business cycle. Full employment would only be reached at the peak of the boom. But as government expenditure to combat unemployment becomes established practice, recessions would be comparatively modest and short.

Kalecki concluded by asking whether someone of a progressive outlook should be satisfied with such a regime of modest economic fluctuation just below the level of full employment. His answer was that a progressive should oppose it because it does not assure permanent full employment and because the government spending is restricted to public investment, and does not include subsidizing consumption, with welfare payments. Kalecki suggested that beyond a certain point public investment could be excessive, resulting in unwanted projects, just for the sake of providing work. To the objection that ‘the government will have nothing to show for their money’ in subsidizing consumption, he answered that such subsidies would provide a higher standard of living for the population and asked rhetorically ‘is not this the purpose of all economic activity?’ (Kalecki, p. 356)

‘Varieties of Keynesianism’ and other political aspects of ‘Political Aspects’

Kalecki’s paper is notable not only as an exposition of the political difficulties that arise in a capitalist economy with any attempt to achieve full employment. It also contains a critical examination of ways in which Keynesian doctrines of monetary policy and public finance may be applied to achieve full employment; ways that may be inefficient, ineffective, and politically undesirable. These may be considered under a general heading of ‘varieties of Keynesianism’.

Business Keynesianism

The notion that full employment should be achieved by means of private investment may be described as ‘business Keynesianism’. As Kalecki described it: ‘In current discussions of these problems there emerges time and again the conception of counteracting the slump by stimulating *private* investment.’ It is Keynesian in the sense that it recognizes



(as argued by Keynes and Kalecki) that in a free market capitalist economy it is the level of investment that determines the volume of output and employment in the economy.

This is in contrast to the neo-classical view that the volume of output is determined by the availability of productive resources, and the level of employment is determined by the wage rate (Kalecki 1936; Toporowski 2022b). Keynes lent some credibility to this notion by advocating a low rate of interest to stimulate investment: ‘... the scale of investment is promoted by a *low* rate of interest... Thus, it is to our best advantage to reduce the rate of interest to that point relatively to the schedule of the marginal efficiency of capital at which there is full employment.’ (Keynes 1936, p. 375).¹

In his essay, Kalecki identified the political attractions of such a solution. But he was sceptical of its effectiveness: ‘Stimulating private investment... may be done by lowering the rate of interest, by the reduction of income tax, or by subsidizing private investment in this or another form. That such a scheme should be attractive to business is not surprising. The entrepreneur remains the medium through which the intervention is conducted. If he does not feel confidence in the political situation, he will not be bribed into investment.’ Such tax and interest rate incentives for investment would have to be applied cumulatively, so that, ‘in the not too remote future, the rate of interest would have to be negative, and income tax would have to be replaced by an income subsidy.’ (Kalecki 1943, pp. 353-354). Moreover, the reaction of business to such incentives is ‘uncertain. If the downswing is sharp, they may take a very pessimistic view of the future, and the reduction of the rate of interest or income tax may then for a long time have little or no effect upon investment, and thus upon the level of output and employment.’ (Kalecki 1943, p. 354).

For business: ‘The necessity that “something must be done in the slump” is agreed; but the fight continues, firstly, as to *what* should be done in the slump (i.e., what should be the direction of government intervention) and secondly, that it should be done *only* in the slump (i.e., merely to alleviate slumps rather than to secure permanent full employment) (Kalecki 1943, p. 353).

In a later article, ‘Three ways to full employment’ Kalecki laid out the requirements needed for private investment to maintain full employment: ‘Private investment must be at a level adequate to expand the capacity of equipment *pari passu* with the increase in working population and productivity of labour, i.e., proportionate to full employment output.’ (Kalecki 1944, p. 366). However, a market economy does not provide government with policy instruments to secure such a precise volume of investment. In general, the slump is a period when demand is insufficient to keep industrial capacity fully utilised, and the excess capacity will tend to reduce, rather than maintain full capacity working.

¹ Keynes called this reduced return on money capital the ‘euthanasia of the rentier’ and it relied for its effectiveness on inducing capitalists to have resort to productive investment as a means of earning a return on their capital. This argument had been anticipated by Marx in volume II of *Capital*. See Marx 1974, p. 378.



Conservative Keynesianism: Public works

Kalecki's sceptical remarks about the difficulties of coordinating *private* investment do not quite put paid to the 'socialisation of investment' urged by Keynes at the end of his *General Theory* (Keynes 1936, p. 378). In 'Political Aspects' Kalecki argued that a measure of *public* investment may make up for the deficiencies of private investment at any one time. However, capitalists would be wary of public investment that may enter into competition with the private sector (Kalecki cited hospitals, schools and highways as examples). 'Otherwise the profitability of private investment might be impaired, and the positive effect of public investment upon employment offset, by the negative effect of the decline in private investment.' (Kalecki 1943, p. 350). Keynes was sanguine about the employment possibilities of filling 'old bottles with banknotes' or the construction of pyramids (Keynes 1936, pp. 129, 131). But Kalecki was opposed to such pharaonic schemes. Public works, as a way of filling the gap in aggregate demand between *private* investment and the level of investment required for full employment, had to satisfy some public need. As he wrote after his 'Political Aspects' article, 'the gap to be filled by this government expenditure may be so large that public investment will soon become entirely, or nearly, useless. In such a case it would be absurd to restrict the government spending programme to public investment when a higher standard of living can be achieved by devoting a part of this spending to increased consumption. (Kalecki 1944, p. 368).

Public expenditure, in Kalecki's view, must provide social benefits beyond mere job-creation. 'The general principle must be that social priorities should decide the nature of the government's spending programme. It will have to be decided, for instance, whether it is more important to provide in a given year more swimming pools or more milk for children. Such decisions may be affected to a great extent by political factors. However, the principle of social priorities will in any case eliminate such projects as building five bridges over one stretch of river for the mere purpose of providing employment.' (ibid.)

Fascist Keynesianism

Kalecki then considered the situation under fascism, where capitalist objections to full employment are removed by placing 'the state machinery... under the direct control of a partnership of big business with fascism.' Government expenditure is concentrated on armaments, and labour discipline and 'political stability' are maintained by suppressing trades unions and instituting concentration camps for internal 'enemies' of the 'new order'. Expanding armaments production and the numbers of men in uniform with lethal equipment to hand induces competitive military investment in other countries. As shortages of capacity and equipment arise, it becomes necessary to plan the economy. But this is not socialist planning. Under fascism, planning is done by the partnership of big business and fascism and concentrated on the armaments sector, and at the expense of mass consumption. (Kalecki 1943 p. 352).



Forcing governments in neighbouring countries into competitive military investment has the advantage that it helps to overcome the foreign trade bottleneck on Keynesian deflation. Imports rise as aggregate demand increases and, unless exports rise at the same time, a foreign exchange crisis becomes more likely. Kalecki had noted before the war that the foreign trade constraint on 'Keynesianism in one country' could be overcome by having all trading partners deflating simultaneously, so that they all expand their imports from each other at the same time. But he did not consider this to be politically or economically a stable strategy since it requires a degree of international economic coordination that he thought 'utopian' (Kalecki 1932a and 1932 b). In 'Political Aspects' he concluded that 'An armament economy involves in particular the curtailment of consumption as compared with that which it could have been under full employment... The fascist system starts from the overcoming of unemployment, develops into an armament economy of scarcity, and ends inevitably in war.' (Kalecki 1943, p. 352).

After the Second World War, Kalecki saw features of this fascism in the Cold War politics and economics of the United States and its NATO allies, with governments maintaining full employment under policies directed in collaboration between military and industrial establishments. (Toporowski 2016).

A transition to Socialism?

In contrast to Keynes, Kalecki considered that the changes brought about by full employment, in society and in the balance of power between classes, would strengthen the influence of the labour movement in society. Behind Kalecki's reflections on full employment lay the realization, shared with many socialists and progressive thinkers (including most notably Keynes himself), that mass unemployment need not be a permanent feature of capitalism. If full employment could be obtained in the conditions of the Second World War, it could be organised after that War. The purpose of his article was to show how this could be done. But he also recognized that a regime of full employment would change the fundamental conditions under which capitalism was used to operating. At the end of his life, in 1970, as an alternative to 'the problem of reconciling the struggle for reform with the revolutionary struggle' Kalecki suggested a 'Crucial Reform' that 'will strengthen, not weaken, the revolutionary potential of mass movements.' Such a reform would arise when '...the strong pressure of the masses leads to such a radical reform of the system that, without abolishing the existing relations of production, a new valve is opened for the development of the forces of production. There will then be a paradoxical situation: a 'crucial reform' imposed on the ruling class may stabilize the system, temporarily at least. (Kalecki and Kowalik 1971, p. 467).

This last attempt by Kalecki to explain the political economy of capitalism after the Second World War is less clear than his war-time endeavour. Not least of its problems is the reversal, within a few years of the writing of that joint article, of public attitudes towards full employment: In 1943 Kalecki had written '... the slogan "Unemployment never again" is now deeply rooted in the consciousness of the masses. This position is reflected in the recent pronouncements of the "captains of industry" and their



experts...most economists are now agreed that full employment may be achieved by government spending...' (Kalecki 1943 pp. 353 and 349). Four decades later, Kalecki and Kowalik wrote their article in part to explain the broad acceptance among economists and government policy-makers of Keynesian policies to maintain high employment. Indeed, in their recent survey of Kalecki's ideas, Julio López Gallardo and Michaël Assous, suggest that Kalecki and Kowalik's paper represents an attempt to argue that the political business cycle was no longer agitating capitalist economies (López and Assous 2010, pp. 198-200). Within a decade of the publication of the article by Kalecki and Kowalik on the 'Crucial Reform', governments led by Margaret Thatcher and Ronald Reagan had swept to power and been re-elected despite rising mass unemployment, while in France the socialist François Mitterand had been forced to reverse fiscal policies aimed at full employment (King 2013; Vercelli 2013).

Riccardo Bellofiore has suggested that it is 'Political Aspects' that contains Kalecki's true analysis of the 'crucial reform' of capitalism (Bellofiore 2013, 2023). This is undoubtedly correct. Indeed, a reading of 'Political Aspects' suggests further that his 1943 article contains hints at a 'Kaleckian Road to Socialism', stopping only short at the final breakthrough to the social ownership of the means of production. Two arguments point to such a future arising out of a regime of full employment in capitalism. The first is his contention that the maintenance of full employment would give 'confidence' to workers and their organisations, released from employers' threats to deprive workers of their means of earning their livelihoods: 'the self-assurance and class-consciousness of the working class would grow'. Secondly, his argument that full employment would also require new institutions to maintain the industrial and financial stability of the economy: 'Full employment capitalism' will need 'new social and political institutions which will reflect the increased power of the working class. If capitalism can adjust itself to full employment, a fundamental reform will have been incorporated in it. If not, it will show itself an outmoded system which must be scrapped.' (Kalecki 1943, p. 356).

This may be contrasted with the traditional Marxian view that capitalism progresses through the immiseration of the working class, whose coming together in factories allows them to resist 'pauperisation' and 'cuts from under its feet the very foundation on which the bourgeoisie produces and appropriates products. What the bourgeoisie, therefore, produces, above all, is its own grave-diggers. Its fall and the victory of the proletariat are equally inevitable.' (Marx and Engels 1970). In Marx's view the bigger capitalists would eliminate competition from the 'lower middle class, the small manufacturer, the shopkeeper, the artisan, the peasant...' He considered the petty-bourgeois to be largely reactionary but doomed to proletarianization.

By contrast Kalecki knew from his own experience that the traffic went both ways: without comprehensive unemployment insurance the unemployed would join the ranks of the self-employed and casually employed, whose only hope of progress within the capitalist order was to become petty businessmen (see also Robinson 1936, which made an impression on Kalecki when he came to Britain for the first time). Kalecki went further and pointed out the role of unemployment in swelling the social basis of fascism, which would provide business with an alternative full employment model to one that



gives power to workers. He concluded ‘Fascism sprang up in Germany against a background of tremendous unemployment, and maintained itself in power through securing full employment which capitalist democracy failed to do so. The fight of the progressive forces for all employment is at the same time a way of *preventing* the recurrence of fascism.’ (Kalecki 1943, p. 356)

Conclusion

Kalecki and Keynes shared a common conviction that there was no natural tendency for a capitalist market economy to gravitate to full employment. Both of them explored and explained how, by fiscal policy, governments can eliminate involuntary unemployment. But Kalecki went further, to examine how full employment affects the relationship between the social classes of capitalists and workers and how the maintenance of capitalist control over labour becomes an obstacle to full employment. ‘Political Aspects of Full Employment’ is an answer to the question haunting modern capitalism of the relationship between democracy and capitalism. In the nineteenth century, capitalism begat parliamentary democracy. In the twentieth century the question of full employment became a test of parliamentary democracy. The failure to achieve it opened the door to populist movements of fascism, as it does to populist movements today.

Kalecki envisaged the achievement of full employment by welfare provision and expanding the production of public goods and services at subsidized rates to improve standards of living for all citizens. This is not so different from the ambition of the Financial Times’ chief economic commentator Martin Wolf, who recently observed that ‘it is impossible to sustain a universal suffrage democracy with a market economy if the former does not appear open to the influence — and the latter does not serve the interests — of the people at large. This, in turn, demands a political response rooted not in the destructive politics of identity, but of welfare for all citizens — that is, a commitment to economic opportunity and basic security for all.’ (Wolf 2023). But universal suffrage does not make us all equal in the market economy. As Kalecki showed, ‘economic opportunity and basic security for all’ may be incompatible with employers’ power in the workplace and requires for its stability new institutions prefiguring socialism. When big business takes the initiative to protect its rights in places of work, and in society as a whole, such business has readily made its peace with populist movements on the right of the political spectrum. This is a choice made by business and not by the citizen or the concerned observer. It was business support for deflation that made mass unemployment respectable in the 1980s and confounded Kalecki’s ‘crucial reform’ of capitalism.

By contrast, Keynes considered capitalists as being merely in need of enlightenment, because their rights as employers and in society would not be compromised by full employment. If anything, industrial progress would ensure that contented workers with more leisure would renounce political extremes and enjoy the cultural pursuits of their betters. With rising productivity, full employment equilibrium would eventually be matched by social equilibrium. Keynes’s was a long-term vision that could only be realised when the power of capitalists is removed.



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