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Kalecki: A leftist Keynes for the working class

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Michał Kalecki, *Kapitalizm: Dynamika gospodarcza i pełne zatrudnienie* [Capitalism: Economic Dynamics and Full Employment], iTON Society: Warszawa, 2015; 407 pp., ISBN 9788393576715, PLN 65 (approx. €15).

Julio Lopez G and Michael Assous, *Michał Kalecki*, Polskie Towarzystwo Ekonomiczne: Warszawa, 2011; 335 pp., ISBN 9788388700620, PLN 80 (approx. €18). (This is the Polish edition of the book, which was earlier published in English by Palgrave Macmillan, 2010)

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The global financial crisis, which has revealed that mainstream economics cannot explain the sources, effects and risks posed by the failure of neoliberalism, is one of the reasons for the increased interest in Keynesian economics. However, concepts developed by Michał Kalecki are just as interesting. His theory of effective demand was created around the same time as Keynesian concepts (although, as emphasised by many economists, Kalecki was a few years ahead of Keynes) and corresponded well with the message of the Keynesian revolution. Rafał Woś aptly observes that Kalecki's concepts long remained in the shadow of classical Keynesianism and its simplified version, used by Western politicians in the post-war period. Kalecki was popular mainly in semi-peripheral states such as Mexico or India. Therefore, it seems accurate to call Kalecki the 'Keynes for the Second and the Third Worlds' (Woś, 2016: 48).

A major renaissance of Kalecki's ideas took place after 2008, alongside the outbreak of the crisis in the centre of the world's financial system. Rich countries released large public funds to rescue financial systems, expanding public debt in most countries and mainly supporting the financial sector. This response did not bring any radical change: Western economies still live in a world of great, post-crisis, seemingly endless stagnation. The innovative and practical aspects of Kalecki's concepts can be seen exactly at this point. He was sceptical about pure monetary policy. In his opinion, an economic recovery can occur through government spending that goes to wide circles of workers, rather than a narrow group of big business beneficiaries. Good conditions of employment and fair wages allow broad masses of society to be more active in the consumer market. The higher social security is, the more people spend; numbers of orders increase and recession begins to subside. Keynes differed from Kalecki in his attitude to the social distribution of income. The former emphasised the importance of private savings out of profits. Kalecki in turn advocated stimulating consumer demand among low-income people by raising their salaries. Therefore, as Kazimierz Łaski and Jerzy Osiatyński write in the preface to Kalecki's book, 'his theory provides a much better basis for understanding the mechanisms of the dynamics of the capitalist economy [and] business cycles, as well as the basics of the theory and practice of full employment policy' (pp. 3–4).

The discussion of Kalecki's concepts in *Kapitalizm: dynamika gospodarcza i pełne zatrudnienie* (Capitalism: Economic Dynamics and Full Employment) is not just an intellectual feast for those studying the history of economic thought. Kalecki's considerations are still valid, even in the face of current socio-economic problems, such as the widespread unemployment among young people in many peripheral and rich countries of the EU. For the Polish economist, unemployment or full employment were not the results of purely economic mechanisms, but the effects of political decisions and choices.

According to Kalecki, when a government makes public investment (e.g. builds schools, hospitals and roads) or subsidises mass consumption (by means of a family allowance, subsidies or lower indirect taxes), the effective demand for goods and services can be increased, allowing for full employment. Kalecki emphasised that government spending increases employment not only directly but also indirectly: increased revenues cause a secondary increase in demand for consumer goods and investment (p. 386). While many economists agree that government expenditure can ensure full employment, this idea has also many opponents. According to Kalecki, this opposition has political, rather than economic causes:

> Among the opponents of this theory were (and still are) so-called 'prominent economic experts', closely linked with the banking system and industry. This indicates that the opposition to the full employment theory has a political background, although economic arguments are put forward here. (p. 389)

What are their motives? After all, full employment entails higher production and benefits not just for employees, but also for big business. As Kalecki suggested, it is not about profit but about developing and defending a strategic position in the balance of power. Any extension of the role of the state in the economic sphere is suspicious to big business. Raising employment by means of government spending evokes particular reluctance in entrepreneurs. As Kalecki explains,

> In the *laisser-faire* system, the level of employment depends to a large extent on the so-called atmosphere of trust. When this atmosphere is disturbed, investments decline, implying a decline in production and employment (directly and indirectly: by the impact of decreased income on consumption and investment). This gives capitalists automatic control of government policy. The government must avoid anything that might disturb 'the atmosphere of trust', as this may cause an economic crisis. However, when the government learns the trick of raising employment by its own spending, this 'control measure' loses its efficiency. Therefore, the budget deficit, necessary for state intervention to occur, should be considered disastrous. The social function of the 'healthy finances' doctrine is to make the level of employment dependent on the 'atmosphere of trust'. (p. 390)

However, if the fetish of 'the atmosphere of trust' lost its meaning under social pressure, maintaining full employment would cause social and political transformation. As Kalecki rightly states, in a system of full employment dismissals would cease to play the role of a control measure. Economic control would lose importance and the awareness, and capabilities of workers would strengthen their bargaining positions in such circumstances. As it turns out, defending the current rules of the game is even more important to business owners than profits. 'Their class instinct tells them that lasting full employment is "unhealthy" from their point of view and that unemployment is an integral part of the normal capitalist system' (p. 392).

Kalecki was sceptical about the idea of preventing crises by creating incentives for private investment (in the form of reduced income taxes, lower interest rates or direct subsidies for private investment). He claimed that reducing interest rates or income taxes in a crisis without increasing them in the next recovery will lead to a new collapse. Such measures cannot block and do not eliminate the forces that cause fluctuations in the capitalist economy. In addition, it is uncertain how entrepreneurs will respond to such measures. At the time of acute crisis, they can have a very pessimistic view of the future and the reduction of interest rates or taxes may only slightly affect the level of investment and thus the level of production and employment (p. 396).

According to Kalecki, capitalism with full employment will have to create new social and political institutions; they will reflect the stronger position of workers in society. If this is achieved, it will mean that capitalism has passed a landmark reform. Otherwise, old dangers may resurface. Kalecki's words about the threats of fascism are especially valid today in the context of the current crisis and the growth of extreme and populist right forces:

> Fascism was born in Germany under conditions of enormous unemployment and remained in power by providing full employment, while capitalist democracy could not achieve this. The fight of the progressive forces for full employment is also a means to prevent the second coming of fascism. (p. 398)

The second part of Kalecki's book is dedicated to full employment, whereas the first part, *Dynamika gospodarcza* (Economic Dynamics), contains Kalecki's writings from different periods of his life. They are devoted to the essence of upswing, the theory of economic dynamics (a discussion of cyclical and long-term changes in the capitalist economy) and theories of growth in different social systems.

Kalecki is far from market orthodoxy, which assumes the market itself regulates the dynamics of economic development. For example, one can ask why employers do not increase production, and hence employment, when the economy slows down. Individual business representatives often say in such moments that production does not pay off and the current prices of their products do not even cover current costs (expenditures on raw materials, labour, taxes, etc.). Hence, neoliberals repeat the mantra of 'the need to reduce production costs'. In practice, this means demands for further tax cuts, but most of all wage reductions and the elimination of all social protection. These, supposedly, universal instruments aim to boost the economy. This, however, often does not happen. As Kalecki writes,

> One of the most characteristic features of the capitalist system is that what is beneficial for one capitalist is not necessarily beneficial for all capitalists together. If one employer lowers wages, *ceteris paribus* will be able to fully employ their workers; but if all employers reduce wages, the effect will be completely different. (p. 84)

Of course, consumption will decrease among the broad masses. This process can only be counterbalanced by business spending on consumption or investment. According to Kalecki, this is very unlikely. On the one hand, luxury consumption by a narrow group of capitalists cannot compensate for the consumption by the general and mass public, on the other hand, the consumption by capitalists generally does not fluctuate much over a business cycle. Moreover, Kalecki claims that a reduction of wages and the overall cost of production do not affect new investments immediately. Indeed, salary cuts are soon followed by repercussions for prices: entrepreneurs lose on prices what they have gained on wages. 'These phenomena were observed in all countries during the global crisis in 1931-1932, when the wave of wage reductions caused only a sharp fall in prices rather than increased production' (p. 86). Moreover, stimulating the economy through cheap labour from Eastern Europe and other semi-peripheral parts of the world means that these regions do not have a chance to become innovative, because investing in new technologies does not pay off: low production costs bring faster income. This makes these places offshoring regions with a backward economic structure and low-paid employees.

The book *Michał Kalecki* by Julio Lopez and Michael Assous further expands on Kalecki's vision of development. Julio Lopez was Kalecki's student and Michael Assous dealt with the Polish economist's business cycle theory for many years. The book contains nine chapters and presents not just the originality of Kalecki's theory and his resemblance to Keynes, but also the differences between the two economists. For those who deal with the history of economic thought, this book will help better understand the evolution of Kalecki's views and show the relevance of his theory in solving contemporary problems.

The 'business cycle' theory was Kalecki's greatest passion, which he developed to summarise the dynamics of the capitalist economy. As the authors of *Michał Kalecki* write, 'Right from his first theoretical papers, Kalecki was convinced that any short period is shaped by what happened in the past, and determines, though not mechanically, what will take place in the future' (p. 305). The general logic of Kalecki's models is based on the assumption that the cycle and the trend are determined by the evolution of investments, which follows a lag in previous investment decisions. In this context, he considered that growth is not endogenous to capitalism, but depends on the existence of other elements (e.g. technical progress) (p. 306). By contrast, the market economy left to itself without any intervention can never achieve a balance and, with the help of the state, it may only reduce the cyclical fluctuations in output and employment.

The authors define Kalecki as 'a socialist economist' and 'a radical reformer'. They show that he was convinced that capitalism is a system of social contradictions. In his view, a durable boom can bring political change, weakening control over the working class and inflationary trends that push capitalists and their political allies to reduce state spending. As the authors write,

> Kalecki was fully aware that the process of full employment could be used as a way to radically change the capitalist system, both by allowing what he considered a more equitable distribution of income, as well as by improving the living standards of broad masses. (p. 281)

In summary, it is worth quoting two epigrams by Kalecki, which are in the supplement to the first book discussed above. They show not only his intelligence and a sense of humour, but also his critical and sarcastic attitude to the reality he observed. Similar to the economic output of the author, they still remain uniquely valid:

> **The Hero of Our Time**
> A bit of a talent and flair
> And a portion of bluff.
> No one can see that the king is naked.
>
> **The Maxim of an Official**
> Mr. Ambrose said to his colleague:
> Regime change is the act of God,
> But the mystery of life is to survive the regime,
> And not to let the regime survive you.

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(This review is based on the Polish translation, *Przedsiębiorcze państwo. Obalić mit o relacji sektora publicznego i prywatnego*, Wydawnictwo Ekonomiczne Heterodox, Poznań, 2016)

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Public costs, private profits

Noam Chomsky (1999) states that two varieties of free market doctrine are implemented in social life. The first is the prevailing official doctrine imposed on citizens who are poorly equipped to imagine an alternative. In order to receive support from the public, international business may claim to 'protect the national economy' and defend the sector against 'foreign competition'. The second is what Chomsky calls 'really existing free market doctrine' – 'market discipline is good for you, but not for me, except for temporary advantage' (p. 34).

While the first variety functions at the ideological level and is imposed on the general public, the second is practised by big business. In everyday life, this means that the slogans of 'increasing efficiency', 'reducing labour costs', 'a more flexible labour market' and 'rationalisation of work organisation' are used to justify reduced social assistance from the state, lower wages, deprivation of social rights and subordination of working