Keynes’s Bourgeois Socialism

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Introduction

John Maynard Keynes, who was born in 1883 and died in 1946, was very much influenced by the two World Wars, the Bolshevik Revolution, Fascism, and the inter-war severe depressions of the world capitalist economy. These events led him to discredit the cosmopolitan and non-interventionist principles of market economies and urged him to find the ways of safeguarding capitalism from the attacks by socialism and fascism. According to Keynes, high levels of unemployment and income inequality were the two 'outstanding faults' (Keynes 1936:372) of capitalism, which the State had to solve in order to defend capitalism. His efforts to introduce the State in market economies and to propose economic policies saving capitalism, however, led to unscientific analyses of capital and the state, which necessarily propagated 'bourgeois socialism'. In this essay I trace what went wrong with Keynes's analysis of capitalism and economic policy proposals. In particular, I am much concerned with Keynesians' tendency to fall into the trap of the State fetishism (See Kim & Park 2007; Kim & Cho 1999).

1. Capitalism's Tendency toward Secular Stagnation?

According to Schumpeter (1946), even before writing “Economic Consequences of the Peace” (1919) and “A Revision of the Treaty” (1922) Keynes had a socio-economic vision on capitalism, i.e. secular stagnation thesis. The vision presumed that the spirit of private enterprise was flagging, investment opportunities were vanishing, and bourgeois saving habits had, therefore, lost their social function. This vision was theorized in The General Theory (GT. 1936) through the concepts of propensity to consume, liquidity preference, marginal efficiency of investment and others. Sweezy (1964) also pointed out that “the vision of capitalism as a system always in imminent danger of falling into a state of stagnation...permeates and, in a certain sense, dominates The General Theory.”

The secular stagnation thesis, however, does not seem to be satisfactorily postulated. First, in deriving the secular stagnation tendency Keynes mainly depended on the psychological traits of consumers, speculators and entrepreneurs. In particular, Keynes emphasized the entrepreneurs' expectation of future as the most important element in deciding the volume of effective demand. It was because Keynes acknowledged that higher liquidity preference followed a fall in marginal efficiency of investment. In a nutshell the entrepreneurs' optimism raises investment and increases consumption by leading to the hiring of more workers. Then,
what determines entrepreneurs' optimism or pessimism about the future? It was not answered by Keynes. Whether it is determined by their animal spirit or the sun-spot may not produce any difference (Sutcliffe 1977). If we assume like Marx that competition among capitals forces capitalists to invest to their utmost, the current, not future, rate of profit may determine the volume of investment. This simple formula by Marx makes us evade the maze of the illogically changing psychologies (See Crotty 2002).

Second, the secular stagnation thesis seems to emphasize prior-existence of markets for commodities before deciding investment. If the markets for producers’ or consumers’ goods do not exist a priori, capitalists may not invest in either industry. This logic contradicts the fact that capitalist's investment, i.e. buying means of production and employing workers, creates the markets for producers’ and consumers’ goods. Although supply and demand are separated in time, space, and person, capital's valorization drive in supply-side initiates to disturb and reestablish the balance between supply and demand. In the totality, comprising production, exchange, distribution and consumption, Marx points out that the production, not the consumption, is the most important determinat moment.

Third, Sweezy and Baran’s development of Keynes’s secular stagnation thesis (Sweezy & Baran 1966) is full of errors. Their ‘tendency of the economic surplus to rise’ (TESR) can not be compared with Marx’s ‘tendency of the rate of profit to fall’ (TRPF). If monopolies appropriate some incomes from buyers, it will raise their economic surplus while Marx’s profit (or surplus-value) created in labor process does not change. The thesis that military expenditures maintain economic prosperity by absorbing or wasting the rising economic surplus is not valid. The war efforts through the military-industrial-academic complex are not the means of wasting the rising economic surplus but the means of valorizing the war-related capitals. It is because in the war efforts the government enriches the military-industrial-academic complex by means of levying higher taxes on wider people. And the economic ‘prosperity’ mentioned above does not take account of so many awful negative effects of the war such as killings of human beings, destruction of culture and civilization, heightening hatred and insecurity, the psychiatrical syndromes of war veterans and others.

Fourth, the secular stagnation thesis does not mention anything about technological developments or innovations which may expedite a long prosperity. Thus, Keynes’s short-run static theory is not adequate for explaining secular stagnation.

In conclusion, although Keynes’s secular stagnation thesis was postulated very poorly, it fulfilled its ideological role for the State to intervene in the market economies. This ideological success was mainly due to the particular real situation of severe long-term depression. In this sense Keynes’s secular stagnation thesis occupies the same ‘theoretical’ status as Adam Smith’s fantastic ‘invisible hand’, though the latter succeeded in the State’s retreat from mercantilist interventions.
2. Keynes's characterization of the State

From the secular stagnation thesis Keynes derived ‘the outstanding faults of the capitalist economic society’ being ‘its failure for full employment and its arbitrary and inequitable distribution of wealth and income’ (GT: 372). And the ‘outstanding faults’ must be solved for saving capitalism from extinction. Then, who will undertake this mission? The consumers, the speculators and the entrepreneurs—the members of capitalist society—cannot solve the ‘faults’, because the faults are the ‘fruits’ of their pursuit of private interests amidst ‘risk, uncertainty and ignorance’ of the future. Here the State enters the stage. According to Keynes, the State can be independent of the psychology and behavior of the members of the capitalist society; for instance the State “is in a position to calculate the marginal efficiency of capital-goods on long views and on the basis of the general social advantage” (GT: 164). As Keynes thinks the State is the defender of the social or public interests, the State should eliminate unemployment and income inequality.

Many criticized Keynes's conception of the State as a neutral third party. Sweezy said:

“Perhaps most striking of all [examples of the insularity and comparative narrowness of the Keynesian approach] is Keynes’s habit of treating the state as a dues ex machina to be invoked whenever his human actors, behaving according to the rules of the capitalist game, get themselves into a dilemma from which there is apparently no escape. Naturally, this Olympian interventionist resolves everything in a manner satisfactory to the author and presumably to the audience. The only trouble is —as every Marxist knows— that the state is not a god but one of the actors who has a part to play just like all the other actors” (Sweezy 1946).

And Singh also criticized Keynes:

“[Keynes] assumes a State which is not only above the class interests of the conflicting groups—the laborers and the capitalists—but is in the general interest of society as a whole. This assumption is wholly unreal. The class affiliation of the modern State is so vital that it can only work in the interest of the capitalist class. Dobb (1950) says: ‘once economic theory is allowed to employ the dues ex-machina of an impartial State, a classless State,…… all miracles can be demonstrated, even without the aid of algebra. One might dismiss such attempts as harmless pastimes, were it not that ideas…can not only disseminate the opium of false hopes, but in the cold war of today more dangerous illusions about the grim realities of present-day capitalism’ ”(Singh 1954).
Often two main reasons were suggested for why Keynes dismissed the class nature of the State. One was his firm conviction that the ‘ideas’ had bigger influences on the State bureaucrats and politicians than the vested interests, and the other was his belief that the State organs could be controlled by the ‘impartial’ educated elite. But the two reasons cannot prove Keynes’s ignorance of the class nature of the State. For instance, he ardently argued that the State should reduce unemployment in order to ‘defend capitalist system’ itself, while he suggested that the ideas had bigger influence on the State bureaucrats than the vested interests. The ‘ideas’ mentioned above were not about the choice among capitalism, socialism, and fascism, but about the Treasury views or Keynes’s views. Keynes even confessed that “the class war will find me on the side of the educated bourgeoisie” (Keynes 1925b).

On the second reason, i.e. the impartial elite’s leadership in the State, Harrod said:

“Keynes presupposed that the government of Britain was and would continue to be in the hands of an intellectual aristocracy using the method of persuasion...Keynes tended till the end to think of the really important decisions being reached by a small group of intelligent people, like the group that fashioned the Bretton Woods plan” (Harrod 1972:226).

This reason or presupposition could not prove Keynes’s ignorance of the class nature of the State. As Keynes’s belief in ‘the supreme value of intellectual leadership, and in the wisdom of the few’ can be regarded as his ‘second’ nature (Harrod 1972:226), he can be blamed as an elitist, not a democrat. He even said: “I believe that in the future, more than ever, questions about the economic framework of society will be far and away the most important political issues. I believe that the right solution will involve intellectual and scientific elements which must be above the heads of the vast mass of more or less illiterate voters” (Keynes 1925b). The form of government Keynes preferred is exactly the ‘club government’ which ruled Britain during ‘the first two-thirds of the twentieth-century’ (Moran 2003). Moran explained:

“The club government had three striking features. First, its operations were oligarchic, informal, and secretive. Second, it was highly pervasive. In other words, it was not just practiced in the core of the metropolitan governing machine in Whitehall......It also shaped government in the overlapping spheres of self-regulation and the vast, labyrinthine world of quasi-government. Third, it was anachronistic, and deliberately so. The institutions and the ideology of the club system were the product of the Victorian era, and of the threats that confronted governing elites in that first industrial nation. But the system survived as a deliberate anachronism, because in the twentieth century it protected elites from more modern forces: from the threats posed by the new world of formal democracy, and from an empowered and often frightening working class” (Moran 2003: 4).
If small elites rule the government through exchanging informal and tacit knowledge with autonomy from public scrutiny, it would be much easier for the vested interests to influence the government. As the club government was not impartial and efficient, it “had a rich history of policy disaster in Britain in the first two-thirds of the 20th century” (Moran 2003: 172).

Keynes was better to acknowledge the followings. As far as the capitalist State is concerned, it aims to maintain and strengthen the bases of capitalism, i.e. private ownership of capital and capital’s valorization drive. How the State can achieve this depends on the particular situations in which capitals are valorizing themselves. When large-scale unemployment threatens to topple the capitalist system itself, the State should try to reduce or eliminate unemployment. And when the working class militancy simply obstructs capital’s valorization, the State may use restrictive fiscal and monetary policies to create unemployment and weaken the power of workers. In other words, the reduction or elimination of unemployment is not always the State’s mission. During the Thatcher and Reagan periods the State adopted monetarist squeeze policies to make financially weak companies bankrupt, amended labor laws to impose restrictions on the activities of trade unions and reduced the social welfare system. These policies contributed to increasing unemployment and weakening trade unions. Even if the State is under the control of an intellectual aristocracy like Keynes, the State will have to maintain capitalist order and have to facilitate capital’s valorization, which involves class conflict.

3. Economic policies suggested by Keynes

Keynes suggested several State policies. In order to reduce capitalist’s uncertainty, ignorance and fear of the future, the State should deliberately control ‘currency and credit’, and collect and publish factual information on the business world (Keynes 1926). The State should impose high income taxes on estates and on the personal incomes of the wealthy classes. By means of an increase in the money supply and commodity prices, the State should reduce real wages as an inducement to investment. More radically, by monetary and credit policies the State should lower the rate of interest towards “that point relative to the schedule of marginal efficiency of capital at which there is full employment” (*GT*: 375). These policies should lead to the ‘euthanasia of the rentier and consequently the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital’ (*GT*: 376). Furthermore, the State should undertake to control and direct the flow of saving and investment, i.e. to ‘organize’ and ‘socialize’ investment, ‘with a view to a progressive decline in the marginal efficiency of capital’ (*GT*: 325).

These policies would lead to the end-situation in which “profit and interest are reduced to zero, and in which the full employment would be permanently maintained and the inequalities in
income disappeared or would be sharply reduced, and in which money would be reduced to a mere accounting unit, and thus all reasons for preferring money would disappear” (Negri 1968: 32). What Keynes in fact showed was a ‘bourgeois socialism’ which, Marx and Engels pointed out in the “Manifesto of the Communist Party”, would change existing material conditions for the betterment of the working class, without altering the capitalist relations of production (Gillman 1955). As Keynes, however, did not think through these policy commendations seriously, either as to their practical feasibility or as to their probable impact on the business cycle (Gillman 1955), in his policy suggestions we can see his bourgeois utopianism, mystification of the State and apologetics for capital.

Keynes did not understand that the valorization of capital is the motive power of capitalist economy and that the valorizing process involves contradictions and struggles between the two fundamental classes, capitalists and workers, and among various factions of the dominant class, i.e. industrial, commercial and financial capitalists and land-owning class. Keynes’s conception of capital is exactly the same as that of the neoclassicists. He lacks Marx’s viewpoints: “capital is not a thing, but a social relation between persons which is mediated through things...A negro is a negro. In certain relations he becomes a slave” (Capital I: 932). “As a capitalist, he is only capital personified. His soul is the soul of capital. But capital has one sole driving force, the drive to valorize itself, to create surplus-value...Capital is dead labor which, vampire-like, lives only by sucking living labor, and lives more, the more labor it sucks” (Capital I: 342).

Let us pay more attention to the mysterious ‘socialization of investment’ (See Pollin 1997; Whyman 2006). In the General Theory, Keynes said:

“Furthermore, it seems unlikely that the influence of the banking policy on the rate of interest will be sufficient by itself to determine an optimum rate of investment. I conceive, therefore, that a somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment; though this need not exclude all manner of compromises and of devices by which public authority will co-operate with private initiative” (GT: 378).

Here it is difficult to understand the exact concept of the ‘socialization of investment’. In other places he mentioned about it. In the “End of Laissez-faire” (1926), Keynes said:

“I believe that some coordinated act of intelligent judgment is required as to the scale on which it is desirable that the community as a whole should save, the scale on which these savings should go abroad in the form of foreign investments, and whether the present organization of the investment market distributes savings along the most nationally productive channels. I do not think that these matters could be left entirely to the chances of private judgment and private profits, as they are at present” (Keynes 1926).
From here we glean some elements of socialization; namely that the scale and direction of investment are determined in the societal level, not at the private enterprise level, and that ‘socialized’ investment is not for private profits but for social interests. Also, in the “End of Laissez-faire”, Keynes illustrates as examples of social-interest augmenting institutions the semi-autonomous bodies within the State (like the universities, the Bank of England, the Port of London Authority, the railway companies) as well as the joint stock companies. He said about joint stock companies:

“But more interesting than these[semi-autonomous bodies within the State] is the trend of joint stock institutions, when they have reached a certain age and size, to approximate to the status of public corporations rather than that of individualistic private enterprise. One of the most interesting and unnoticed developments of recent decades has been the tendency of big enterprise to socialize itself” (Keynes 1926).

Thus, Keynes’s socialization of investment can be said to contain the following elements: the scale and direction of investments are determined by the policies of the State and its organs; the public works which he demanded as a cure for the massive unemployment; the investments by the semi-autonomous organs within the State; the investments by the joint stock companies in which ownership and management of capital are separated. Therefore, the socialization of investment does not necessarily rely on the heavy public works financed by government deficits, because Keynes said:

“If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them, it will have accomplished all that is necessary” (GT: 378).

This socialization of investment can be compared with Marx’s ‘socialization of production’. According to Marx, as division of labor within a factory and social division of labor develops, labor assumes more social character than individual or private character, while capital reveals more social character as common ownership by shareholders surpasses individual or private ownership of capital. Thus, the contradiction between the social character of production and the private character of appropriation leads to the final situation: “The knell of capitalist private property sounds” (Capital: 929).

It is evident that Keynes mistook the increasing social character of capital for the gradual loss of capital’s power of domination and exploitation. In particular, his conception of the joint stock company is in line with J. Burnham’s managerial revolution, in which “the general stability and
reputation of the institution are the more considered by the management than the maximum of profit for the shareholders” (Keynes 1926). But as the joint stock company “offers an individual capitalist [a big shareholder] an absolute command over the capital and property of others [other shareholders], within certain limits, and, through this, command over other people’s labor” (Capital III: 570), the expropriation of small and medium capitalists takes “the antithetical form of the appropriation of social property by a few” in the joint stock company (Capital III: 571).

Valorization of capital still remains the basic aim of the joint stock company. Of course, Marx recognizes that the joint stock company “presents itself prima facie as a mere point of transition to a new form of production” (Capital III: 569). His reasoning is: “the contradiction between the general social power into which capital has developed and the private power of the individual capitalists over these social conditions of production develops ever more blatantly, while this development also contains the solution to this situation, in that it simultaneously raises the conditions of production into general, communal, social conditions” (Capital III: 373).

Keynes tried to mystify the nature of capital and the relationship of domination-exploitation and to prescribe the deceptive and apologetic ‘New Jerusalem’. Seymour Harris said:

“Keynes would indeed try to preserve capitalism by ridding it of its parasitic elements: excess savings, high rates of interest, the hereditary principle and its debilitating effect on capitalism, the preference of the future over the present” (Harris ed. 1947: 544).

Dobb also characterized Keynes as follows:

“He[Keynes] thought he could separate the parasitic elements of capitalism from capitalism itself in order to save the life-blood of the system from exhaustion”( Dobb 1950).

Keynes’s mention about ‘New Jerusalem’ was based on his intention to set aside the fear for the future and to reconstruct capitalism amidst the increasing power of the working class. “In a situation, however, where the relationship between the classes has become dynamic, any attempt to create a new equilibrium is bound to be insecure and unstable. Therefore, he introduced the State as the restorer of an equilibrium and allowed it to use violence, direct and indirect, to defend the mystified general interests or public good” (Negri 1988: 33-35).

4. Keynes and the welfare State

Joan Robinson once pointed out that one of the reasons why Keynes failed was “to allow budget deficit as a prophylactic against recessions, the main consequence of which was the hypertrophy of the military-industrial complex in the USA” (Robinson 1979). It is true that when
Keynes explained how building mansions and pyramids or paying men to dig holes in the ground would maintain employment and the real national income, he added:

“It is not reasonable, however, that a sensible community should be content to remain dependent on such fortuitous and often wasteful mitigations when once we understand the influences upon which effective demand depends” (GT: 220).

Nevertheless, Keynes had not supported the social welfare system with the same enthusiasm as his theory of effective demand had elicited. According to Schumpeter,

“He[Keynes] rendered a decisive service to equalitarianism in an all-important point. Economists with an equalitarian bent had long before learned to discount all other aspects or functions of inequality of income except one: like J. S. Mill they had retained scruples concerning the effects of equalitarian policies upon saving” (Schumpeter 1964: 1171).

In fact, the General Theory refuted the principal argument favoring income inequality, namely that such inequality is essential if the substantial volume of saving necessary for investments is to be maintained. Grahl(1983) called Keynes as ‘the Liberal Revolutionary’, because he believed Keynes laid the foundation for the welfare State. Welfare State is used as “shorthand for the State’s activities in four broad areas: cash benefits; health care; education; and food, housing and other welfare services” (Barr 2004: 21). But in fact Keynes did not actively join or contribute to devise and build the British welfare State. “Keynes was not an egalitarian socialist; he was a liberal who accepted an intellectual aristocracy as a necessary and desirable part of the good society” (Vaizey 1969).

Recently, Maria Marcuzzo insisted that “there is a widespread tendency to portray Keynes as the founding father of the welfare state and to claim that Keynesian revolution provided the justification for the need of a large public sector in the economy...there are scant grounds for these claims” (Marcuzzo 2006). The grounds for her insistence seem to be solid. The policy message in the General Theory is to sustain the level of investment, but this should be interpreted more in the sense of ‘stabilizing business confidence’ (Bateman 1996: 148) than as a plea for debt-financed public works (Kregel 1985). Evidently, therefore, Keynes’s involvement in the design of the two milestones of the welfare state in Britain, i.e. national social insurance and full employment policy, was rather limited. On substantive issues Keynes was not in favor of high taxes to pay for social benefits and pension, the costs of which ought to be borne out by employers.

5. Conclusion
In this essay I tried to dig out the foundation of Keynes’s ‘bourgeois socialism’; namely his bourgeois utopianism, mystification of the state and apologetics for capital. Historical conjuncture in which he, as an elite intellectual aristocrat, fought against Marxism and fascism might have made him lose sight of the real and scientific aspects of the situation. His biographer, Professor Skidelsky, informed us the then prevailing atmosphere at the University of Cambridge.

“Keynes’s conviction that Washington [the New Deals], not Moscow, was the economic laboratory of the world was not widely shared in Cambridge [in England]. Anthony Blunt, returning in October 1934 from a year in Rome to a fellowship at Trinity College, found that ‘all my friends...almost all the intellectual and bright young undergraduates who had come up to Cambridge...had suddenly become Marxists under the impact of Hitler coming to power’. Marxism was embraced by the ‘brightest and the best’ as the cure for war, fascism and unemployment. Membership of the University’s Socialist Society and Labour Club, both Marxist-dominated, rose to about 1,000—a fifth of the undergraduate total—by the time of the Spanish Civil War [1936]. Marxism invaded and captured the Apostles [Cambridge Conversazione Society], the citadel of Keynes’s Cambridge” (Skidelsky 2004: 514).

Once Schumpeter remarked that ‘the attempts to Keynesify Marx or to Marxify Keynes’ would be fruitful (1954: 885). This essay in fact refuted Schumpeter’s opinion.

Bibliography

__________________________ (1925b), "Am I a Liberal?" CWK IX.


