The Death Grip of Neoliberalism. Keynes is Dead; Long Live Marx!

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Many liberal economists envisioned a new dawn of Keynesianism in the 2008 financial meltdown. Nearly six years later, it is clear that the much-hoped-for Keynesian prescriptions are completely ignored. Why? Keynesian economists' answer: "neoliberal ideology," which they trace back to President Reagan.

This study argues, by contrast, that the transition from Keynesian to neoliberal economics has much deeper roots than pure ideology; that the transition started long before Reagan was elected President; that the Keynesian reliance on the ability of the government to re-regulate and revive the economy through policies of demand management rests on a hopeful perception that the state can control capitalism; and that, contrary to such wishful perceptions, public policies are more than simply administrative or technical matters of choice—more importantly, they are class policies.

The study further argues that the Marxian theory of unemployment, based on his theory of the reserve army of labor, provides a much robust explanation of the protracted high levels of unemployment than the Keynesian view, which attributes the plague of unemployment to the "misguided policies of neoliberalism." Likewise, the Marxian theory of subsistence or near-poverty wages provides a more cogent account of how or why such poverty levels of wages, as well as a generalized predominance of misery, can go hand-in-hand with high levels of profits and concentrated wealth than the Keynesian perceptions, which view high levels of employment and wages as necessary conditions for an expansionary economic cycle [1].

Deeper than "Neoliberal Ideology"

The questioning and the gradual abandonment of the Keynesian demand management strategies took place not simply because of purely ideological proclivities of "right-wing" Republicans or the personal preferences of Ronald Reagan, as many liberal and radical economists argue, but because of actual structural changes in economic or market conditions, both nationally and internationally. New Deal–Social Democratic policies were pursued in the aftermath of the Great Depression as long as the politically-awakened workers and other grassroots, as well as the favorable economic conditions of the time, rendered such policies effective. Those favorable conditions included the need to invest in and rebuild the devastated post-war economies around the world, the nearly unlimited demand for U.S. manufactures, both at home and abroad, and the lack of competition for both U.S. capital and labor. These propitious circumstances, along with the pressure from below, allowed U.S. workers to demand respectable wages and benefits while at the same time enjoying higher rates of employment. The high wages and the strong demand then served as a delightful stimulus that precipitated the long expansionary cycle of the immediate post-war period in the manner of a virtuous circle.

By the late 1960s and early 1970s, however, both U.S. capital and labor were no longer unrivaled in global markets. Furthermore, during the long cycle of the immediate post-war expansion U.S. manufacturers had invested so much in fixed capital, or capacity building, that by the late 1960s their profit rates had begun to decline as the enormous amounts of the so-called "sunk costs," mainly in the form of plant and equipment, had become too high [2].

More than anything else, it was these important changes in the actual conditions of production, and the concomitant realignment of global markets, which occasioned the gradual reservations and the ultimate abandonment of the Keynesian economics. Contrary to the repeated claims of the liberal/Keynesian partisans, it was not Ronald Reagan's ideas or schemes that lay behind the plans of dismantling the New Deal reforms; rather, it was the globalization, first, of capital and, then, of labor that rendered Keynesian-type economic policies no longer attractive to capitalist profitability, and brought forth Ronald Reagan and neoliberal austerity economics [3].

> It should be emphasized that Keynesian stabilization policies were not abandoned for purely ideological reasons; i.e., because, as many critics of neo-liberalism argue, a laissez-faire animus spread from Chicago, infecting politicians of all parties and persuading them of the benefits of free markets. . . . Keynesian systems of financial regulation (capital controls and managed exchange rates) could not withstand the growing pools of unregulated international credit, the Euromarkets, which came to dominate international finance [4].

When financial regulations, capital controls and a new international monetary system were established at the Bretton Woods (NH, New England) Conference in the immediate aftermath of WW II, international financial or credit markets were effectively non-existent. The U.S. dollar (and to lesser extent gold) was, by and large, the only means of international trade and credit. Under those circumstances, international credit took place largely through the International Monetary Fund (IMF) and the central banks of the lending/borrowing countries—hence, the enforceability of controls.

This picture of international credit/financial markets, however, gradually changed; and by the late 1960 and early1970s, those markets had grown to the tune of hundreds of billions of dollars, thereby allowing international credit transactions outside of the IMF–central banks channels. The two major factors that significantly contributed to drastic inflation of international financial markets were (a) the computer-generated international credit, and (b) the immense proliferation of Eurodollars, i.e. U.S. dollars deposited in overseas banks. The footloose-and-fancy-free global finance/credit has grown so big during the past several decades that it has made domestic or national controls and regulations virtually ineffectual:

> Critics of international finance have made various proposals to stabilize the system and make it more appropriate to the purposes of economic and social development. The most common suggestion has been a return to the cross-border capital controls that existed during the 1940s and the 1950s. Such controls, in many cases, were not eliminated until the 1990s. However, international bank deposits and financial assets held abroad are now so large

> that it would be difficult to enforce such controls. Indeed, the main reason for getting rid of such regulations was precisely because they could not be enforced [5].

It is obvious, then, that the weakening or undermining of control and/or regulatory safeguards was brought about not so much by purely ideological tendencies of certain politicians or policy makers as it was by the actual developments in international financial markets.

It Started Long Before Reagan Arrived in the White House

The claim that the abandonment of Keynesian policies in favor of neoliberal ones began with the 1980 arrival of Ronald Reagan in the White House is factually false. Indisputable evidence shows that the date on the Keynesian prescriptions expired at least a dozen years earlier. Keynesian policies of economic expansion through demand management had run out of steam (i.e., reached their systemic limits) by the late 1960s and early 1970s; they did not come to a sudden, screeching halt the moment Reagan sat at the helm.

As Professor Alan Nasser of Evergreen State College points out, arguments that "policies of economic equity represented costly trade-offs in terms of efficiency" were made by economic advisors of the Democratic administrations long before Reaganomics solemnized such arguments. Arthur Okun and Charles Schultze had each served as chair of the Council of Economic Advisors to Democratic presidents. In his *Equality and Efficiency: The Big Tradeoff*, Okun (1975) argued that "the interventionist goal of greater equality had inefficiency costs that injured the private economy." Schultze (1977) likewise claimed that "government policies which impact markets in the name of fairness and equality are necessarily inefficient," and that such policies were "bound to disadvantage the very people policymakers intended to protect, and to destabilize the private economy in the process" [6].

Jerome Kalur also points out, "Chamber of Commerce and Business Roundtable efforts to gain control of government regulatory decision-making were initiated at least nine years before" the election of Ronald Reagan to presidency, "when corporate attorney Lewis Powell submitted to the Chamber his now well-known memorandum 'Attack of American Free Enterprise System'" [7]. In concert with Powel's legal offensive against labor and regulatory standards, big business moved swiftly to "impede union organizing" and "to eliminate regulatory controls via streams of think-tank propaganda from the likes of The American Enterprise Institute (1972), The Heritage Foundation (1973), and the Cato Institute (1977)" [8]. Kalur further writes:

> When Powell handed his memorandum to the Chamber, American business had 175 registered lobbyist firms at its service. By 1982, the number of K Street corporate financed arm-twisters had grown to 2,500. Corporate supported PACs numbered 400 in the early 70s and 1,200 by 1980. In short, big business was already causing a decline in union memberships, strongly influencing federal agencies and laws, and mastering the SEC long before the advent of the Reagan presidency. With Powell elevated to the Supreme Court corporate America was by 1978 advancing toward its goal of un-restricted campaign contributions through clandestine vehicles [9].

While theoretical turnaround from New Deal–Keynesian economics by the luminaries of the

Democratic Party pre-dated President Carter, policy implementation of such theories began under the Carter administration. Reagan picked up the Democrat's copy of gradual agenda of neoliberalism and ran with it, replacing the rhetoric of capitalism-with-a-human-face with the imperious, self-righteous rhetoric of rugged individualism that greed and self-interest are virtues to be nurtured. Neither President Clinton eased the supply-side economic policies of the Reagan years, nor is President Obama hesitating to carry out such policies.

The Role of the State: Hopes, Myths and Illusions

The Keynesian view that the government can fine-tune the economy through fiscal and monetary policies to maintain continuous growth is based on the idea that capitalism can be controlled or manipulated by the state and managed by professional economists from government departments in the interest of all. The effectiveness of the Keynesian model is, therefore, based largely on a hope, or illusion; since in reality the power relation between the state and the market/capitalism is usually the other way around. Contrary to the Keynesian perception, economic policy making is more than simply an administrative or technical matter of choice; more importantly, it is a deeply socio-political matter that is organically intertwined with the class nature of the state and the policy making apparatus.

The Keynesian illusion has been nurtured or masked by two major myths. The first myth stems from the perception that attributes the implementation of the New Deal and Social Democratic economic reforms that followed the Great Depression and WW II to the genius of Keynes. Evidence shows, however, that implementation of those reforms, and therefore the rise of Keynes to prominence, were more a product of the fierce class struggles and overwhelming pressures from the grassroots than the brains of experts like Keynes. Indeed, beyond narrow academic circles, Keynes was not even heard of in the United States when most of the New Deal reforms were put in place.

The second myth stems from the view that attributes the long economic expansion of the 1948–68 period in the U.S. to the efficacy or success of Keynesian policies of demand management. While it is certainly true that expansive government policies of the time played a big role in the fantastic economic developments of that period, additional favorable conditions or factors also contributed to the success of that expansion. These included the need to invest and rebuild the devastated post-war economies around the world, the need to supply the vast post-war global demand for consumer as well as capital goods, lack of competition for U.S. products and capital in global markets—in short, the fact that there was enormous room for growth and expansion in the immediate post-war period.

Harboring these myths and illusions, Keynesian economists envisioned a silver-lining in the 2008 financial meltdown and the ensuing Great Recession: an opportunity for a new dawn of Keynesian economics. Nearly six years later, it is abundantly clear that Keynesian policy prescriptions are falling on deaf ears.

Shunned, Keynesian hopes and illusions have turned into disappointment and anger. For example, using his *New York Times*' column, Professor Paul Krugman frequently lashes out at the Obama administration for ignoring the Keynesian policies of economic expansion and job creation:

> The truth is that creating jobs in a depressed economy is something government could and should be doing. . . . Think about it: Where are the big public works projects? Where are the armies of government workers? There

> are actually half a million fewer government employees now than there were when Mr. Obama took office [10].

At the heart of Keynesian economists' frustration or disappointment is the unrealistic perception that economic policies are intellectual products, and that policy making is primarily a matter of technical expertise and personal preferences. What these economists overlook is the fact that economic policy making is not simply a matter of choice, that is, of "good" vs. "bad" policy. More importantly, it is a matter of class policy.

It is not enough to have a good heart or a compassionate soul; it is equally important not to lose sight of how public policy is made under capitalism. It is not enough to repeatedly bash Ronald Reagan as a wicked king and praise FDR as a wise king. The more important task is to explain why the ruling class ousted the wise king and ushered in the wicked one. As Professor Peter Gowan of London Metropolitan University puts it, "Keynesians make an essentially false argument in favor of re-regulation when they fail to see the oneness of the State and the Wall Street" [11].

Growth and Employment: Keynes vs. Marx

Not only is the liberal economists' account of the actual developments that led to the demise of Keynesianism and the rise of neoliberalism inaccurate, so is their explanation of the ongoing problems of unemployment and economic stagnation. By blaming the persistently high rates of unemployment on "neoliberal capitalism," instead of capitalism per se, proponents of Keynesian economics tend to lose sight of the structural or systemic causes of unemployment: the secular and/or systemic tendency of capitalist production to constantly replace labor with machine, and to thereby create a sizeable pool of the unemployed, or a "reserve army of labor," as Karl Marx put it.

The fundamental laws of demand and supply of labor under capitalism are heavily influenced, Marx argued, by the market's ability to regularly produce a reserve army of labor, or a "surplus population." The reserve army of labor is therefore as important to capitalist production as is the active (or actually employed) army of labor. Just as a regular and timely adjustment of the level of a body of water behind an irrigation dam is crucial to a smooth or stable use of water, so is an "appropriate" size of a pool of the unemployed critical to the profitability of capitalist production:

> The industrial reserve army, during the periods of stagnation and average prosperity, weighs down the active labour-army; during the periods of over-production and paroxysm, it holds its pretensions in check. Relative surplus population is therefore the pivot upon which the law of demand and supply of labour works. It confines the field of action of this law within the limits absolutely convenient to the activity of exploitation and to the domination of capital [12].

In the era of globalization of production and employment, the reserve army of labor has drastically expanded beyond national borders. According to a recent report by the International Labor Organization (ILO), between 1980 and 2007 the global labor force grew by 63 percent. The report further shows that, due to worldwide urbanization and/or de-peasantization, the ratio of the active to reserve army of labor is less than 50%, that is, more than half of the global labor force is unemployed [13].

It is this vast and readily available pool of the unemployed, along with the relative ease of moving production anywhere in the world—not some "evil intentions of right-wing Republicans or wicked neoliberals," as many Keynesians argue—that has forced the working class, especially in the core capitalist countries, into submission: going along with the brutal austerity schemes of wage and benefit cuts, of layoffs and union busting, of part-time and contingency employment, and the like.

This also explains why repeated Keynesian calls of the recent years for embarking on Keynesian-type stimulus packages in order to help end the recession and alleviate unemployment continue to sound hollow. Under the changed conditions of production from national to global level, and in the absence of overwhelming political pressure from workers and other grassroots, there are simply no refills for Dr. Keynes's prescriptions, which were issued under radically different socioeconomic conditions, under national circumstances or frameworks, not international or global ones.

Theoretically, the Keynesian strategy of a "virtuous circle" of high rates of growth and employment is both simple and reasonable: massive government spending in the face of a serious economic downturn would raise employment and wages, inject a strong purchasing power into the economy, which would, in turn, spur producers to expand and hire, thereby further raising employment, wages, demand, supply . . . ad infinitum. But while the strategy sounds relatively simple and fairly reasonable, it suffers from a number of flaws.

To begin with, it implicitly assumes that employers and government policy makers are genuinely interested in bringing about full employment, but somehow do not know how to achieve this goal. Full employment production, however, may not necessarily be the ideal or profit-maximizing level of capitalist production; which means it may not be a real objective of business and/or government decision makers. As noted earlier, a sizeable pool of the unemployed is as essential to capitalist profitability as is the number of workers needed to be actually employed. In its drive to keep the labor cost as low as possible, by keeping the working class as docile as possible, capitalism tends to often prefer high unemployment and low wages to low unemployment and high wages.

This explains why, for example, the stock market often tends to rise when there is a report of rising unemployment, and vice versa. It also explains why, taking advantage of the long (and ongoing) recessionary cycle, the ruling business–government policy makers in the core capitalist countries have embarked on an unprecedented austerity program of spending cuts and public-sector downsizing whose main objective is to weaken the labor and reduce the labor cost.

Secondly, the Keynesian argument that a "virtuous circle" of high employment, high wages and high growth is relatively easily achievable only if it were not due to the "bad" policies of neoliberalism or opposition of employers is based on the assumption that employers/producers are somehow oblivious to their own self-interest. If only they were mindful of the benefits of the proverbial "Ford wages" to their sales, the argument goes, could they help both themselves and their workers, and bring about economic growth and prosperity for all. The well-known liberal professor (and former Labor Secretary under President Clinton) Robert Reich's view on this issue is typical of the Keynesian argument:

> For most of the last century, the basic bargain at the heart of the American economy was that employers paid their workers enough to buy what American employers were selling. . . . That basic bargain created a virtuous cycle of

> higher living standards, more jobs, and better wages. . . . The basic bargain is over. . . . Corporate profits are up right now largely because pay is down and companies aren't hiring. But this is a losing game even for corporations over the long term. Without enough American consumers, their profitable days are numbered. After all, there's a limit to how much profit they can get out of cutting American payrolls [14].

There are two major problems with this argument. The first problem is that it assumes (implicitly) that U.S. producers depend on domestic workers not only for employment but also for sale of their products—as if it were a closed economy. In reality, however, U.S. producers are increasingly becoming less and less dependent on domestic labor for either employment or sales as they steadily expand their production and sales markets abroad: "On both the supply [employment] side and the demand side, the U.S. worker/consumer is perceived as incrementally inessential" [15].

The second problem with the argument is that wages and benefits are micro- or enterprise-level categories that are decided on by individual employers or corporate managers, not by some macro or national level planners of aggregate demand (as in a centrally-planned economy). Individual producers (large or small) view wages and benefits first, and foremost, as a major cost of production that needs to be minimized as much as possible; and only secondarily, if ever, as part of the national aggregate demand that may (in roundabout ways) contribute to the sale of their products.

Marx characterized capitalism's willingness and ability to create a big pool of the unemployed (in order to create a largely poor and meek working class) as "immiseration" and submission of labor force—a built-in mechanism that is essential to the "general law" of capitalist accumulation:

> It follows therefore that in proportion as capital accumulates, the lot of the labourer, be his payment high or low, must grow worse. The law, finally, that always equilibrates the relative surplus population, or industrial reserve army, to the extent and energy of accumulation, this law rivets the labourer to capital more firmly than the wedges of Vulcan did Prometheus to the rock. It establishes an accumulation of misery, corresponding with accumulation of capital. Accumulation of wealth at one pole is, therefore, at the same time accumulation of misery, agony of toil, slavery, ignorance, brutality, mental degradation, at the opposite pole, i.e., on the side of the class that produces its own product in the form of capital [16].

Conclusion

The Marxian theory of unemployment, based on his theory of the reserve army of labor, provides a much robust explanation of the protracted high levels of unemployment than the Keynesian view that attributes the plague of unemployment to the "misguided" or "bad" policies of neoliberalism. Likewise, the Marxian theory of subsistence or poverty wages provides a more cogent account of how or why such poverty levels of wages, as well as a generalized or nationwide predominance of misery, can go hand-in-hand with high levels of corporate profits and/or stock markets than the Keynesian perceptions, which view a high level of wages as a necessary condition for an expansionary economic cycle.

Perhaps more importantly, the Marxian view that meaningful, lasting economic safety-net programs can be carried out only through overwhelming pressure from the masses—and only on a coordinated global scale—provides a more logical and promising solution to the problem of economic hardship for the overwhelming majority of the world population than the neat, purely academic and essentially apolitical Keynesian stimulus packages on a national level. No matter how long or loud or passionately the good-hearted Keynesians beg for jobs and other New Deal-type reform programs, their pleas for the implementation of such programs are bound to be ignored by governments that are elected and controlled by powerful moneyed interests. The fundamental flaw of the Keynesian demand-management prescription is that it consists of a set of populist proposals that are devoid of class politics, that is, of political mechanisms that would be necessary to carry them out. Only by mobilizing the masses of workers (and other grassroots) and fighting, instead of begging, for an equitable share of what is truly the product of their labor can the working majority achieve economic security and human dignity.

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References/Notes

[1] This article is essentially a (significantly) shortened version of Chapter 5 of my book, *Beyond Mainstream Explanations of the Financial Crisis: Parasitic Finance Capital* (Routledge 2014).

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