

# The Paradox of Capitalism: The Relevance of John Maynard Keynes

By [Prof Prabhat Patnaik](#)

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John Maynard Keynes, though bourgeois in his outlook, was a remarkably insightful economist, whose book [Economic Consequences of the Peace](#) was copiously quoted by [Lenin](#) at the Second Congress of the Communist International to argue that conditions had ripened for the world revolution. But even Keynes' insights could not fully comprehend the paradox that is capitalism.

In a famous essay ["Economic Possibilities for Our Grandchildren"](#), written in 1930, Keynes had argued: "Assuming no important wars and no important increase in population, the economic problem may be solved, or be at least within sight of solution, within a hundred years. This means that the economic problem is not, if we look into the future, the permanent problem of the human race" (emphasis in the original).

He had gone on to ask: "Why, you may ask, is this so startling? It is startling because, if instead of looking into the future, we look into the past, we find that the economic problem, the struggle for subsistence, always has been hitherto the most pressing problem of the human race. . . . If the economic problem is solved, mankind will be deprived of its traditional purpose." He had then proceeded to examine how mankind could fruitfully use its time in such a world.

True, after Keynes had written there was the Second World War, but thereafter mankind has had six and a half decades without any "important war" of the sort that could interrupt what he had called the "era of progress and invention". And the rate of population growth has also not accelerated to a point that can be considered to have invalidated Keynes' premise. And yet if we take mankind as a whole, it is as far from solving the economic problem as it ever was. True, there has been massive accumulation of capital, and with it an enormous increase in the mass of goods available to mankind; and yet, for the vast majority of mankind, the "struggle for subsistence" that Keynes had referred to has continued to remain as acute as ever, perhaps in some ways even more acute than ever before.

To say that this is only because not enough time has passed, that over a slightly longer time period Keynes' vision will indeed turn out to be true, is facile. The fact that the bulk of mankind continues to face an acute struggle for subsistence is not a matter of degree; it is not as if the acuteness of this struggle for this segment of mankind has been lessening over time, or that the relative size of this segment has been lessening over time. We cannot therefore assert that the passage of more time will lift everybody above this struggle.

Dichotomy Structurally Inbuilt in Capitalism

Likewise, to say that, while enormous increases have taken place in the mass of goods and

services available to mankind (the increase in this mass being more in the last hundred years than in the previous two thousand years, as Keynes had pointed out), its distribution has been extremely skewed and hence accounts for the persistence of the struggle for subsistence for the majority of the world's population is to state a mere tautology. The whole point is that there is something structural to the capitalist system itself, the same system that causes this enormous increase in mankind's capacity to produce goods and services, which also ensures that, notwithstanding this enormous increase, the struggle for subsistence must continue to be as acute as before, or even more acute than before, for the bulk of mankind.

Keynes missed this structural aspect of capitalism. His entire argument in fact was based on the mere logic of compound interest, i.e. on the sheer fact that "if capital increases, say, 2 percent per annum, the capital equipment of the world will have increased by a half in twenty years, and seven and a half times in a hundred years". From this sheer fact it follows that output too would have increased more or less by a similar order of magnitude, and mankind, with so much more of goods at its disposal, would have overcome the struggle for subsistence. The reason Keynes assumed that an increase in the mass of goods would eventually benefit everyone lies not just in his inability to see the antagonistic nature of the capitalist mode of production (and its antagonistic relationship with the surrounding universe of petty producers), but also in his belief that capitalism is a malleable system which can be moulded, in accordance with the dictates of reason, by the interventions of the State as the representative of society. He was a liberal and saw the state as standing above, and acting on behalf of, society as a whole, in accordance with the dictates of reason. The world, he thought, was ruled by ideas; and correct, and benevolent, ideas would clearly translate themselves into reality, so that the increase in mankind's productive capacity would get naturally transformed into an end of the economic problem. If the antagonism of capitalism was pointed out to Keynes, he would have simply talked about state intervention restraining this antagonism to ensure that the benefit of the increase in productive capacity reached all.

The fact that this has not happened, the fact that the enormous increase in mankind's capacity to produce has translated itself not into an end to the struggle for subsistence for the world's population, but into a plethora of all kinds of goods and services of little benefit to it, from a stockpiling of armaments to an exploration of outer space, and even into a systematic promotion of waste, and lack of utilization, or even destruction, of productive equipment, only underscores the limitations of the liberal world outlook of which Keynes was a votary. The state, instead of being an embodiment of reason, which intervenes in the interests of society as a whole, as liberalism believes, acts to defend the class interests of the hegemonic class, and hence to perpetuate the antagonisms of the capitalist system.

### Antagonisms in Three Distinct Ways

These antagonisms perpetuate in three quite distinct ways the struggle for subsistence in which the bulk of mankind is caught. The first centres around the fact that the level of wages in the capitalist system depends upon the relative size of the reserve army of labour. And to the extent that the relative size of the reserve army of labour never shrinks below a certain threshold level, the wage rate remains tied to the subsistence level despite significant increases in labour productivity, as necessarily occur in the "era of progress and innovation". Work itself therefore becomes a struggle for subsistence and remains so. Secondly, those who constitute the reserve army of labour are themselves destitute and

hence condemned to an even more acute struggle for subsistence, to eke out for themselves an even more meager magnitude of goods and services. And thirdly, the encroachment by the capitalist mode upon the surrounding universe of petty production, whereby it displaces petty producers, grabs land from the peasants, uses the tax machinery of the State to appropriate for itself, at the expense of the petty producers, an amount of surplus value over and above what is produced within the capitalist mode itself, in short, the entire mechanism of “primitive accumulation of capital”, ensures that the size of the reserve army always remains above this threshold level. There is a stream of destitute petty producers forever flocking to work within the capitalist mode but unable to find work and hence joining the ranks of the reserve army. The antagonism within the system, and vis-à-vis the surrounding universe of petty production, thus ensures that, notwithstanding the massive increases in mankind’s productive capacity, the struggle of subsistence for the bulk of mankind continues unabated.

The growth rates of world output have been even greater in the post-war period than in Keynes’ time. The growth rates in particular capitalist countries like India have been of an order unimaginable in Keynes’ time, and yet there is no let-up in the struggle for subsistence on the part of the bulk of the population even within these countries. In India, precisely during the period of neo-liberal reforms when output growth rates have been high, there has been an increase in the proportion of the rural population accessing less than 2400 calories per person per day (the figure for 2004 is 87 percent). This is also the period when hundreds of thousands of peasants, unable to carry on even simple reproduction, have committed suicide. The unemployment rate has increased, notwithstanding a massive jump in the rate of capital accumulation; and the real wage rate, even of the workers in the organized sector, has at best stagnated, notwithstanding massive increases in labour productivity. In short our own experience belies the Keynesian optimism about the future of mankind under capitalism.

But Keynes wrote a long time ago. He should have seen the inner working of the system better (after all Marx, who died the year Keynes was born, saw it), but perhaps his upper-class Edwardian upbringing came in the way. But what does one say of people who, having seen the destitution-“high growth” dialectics in the contemporary world, still cling to the illusion that the logic of compound interest will overcome the “economic problem of mankind”? Neo-liberal ideologues of course propound this illusion, either in its simple version, which is the “trickle down” theory, or in the slightly more complex version, where the State is supposed to ensure through its intervention that the benefits of the growing mass of goods and services are made available to all, thereby alleviating poverty and easing the struggle for subsistence.

But this illusion often appears in an altogether unrecognizable form. Jeffrey Sachs, the economist who is well known for his administration of the so-called “shock therapy” in the former Soviet Union that led to a veritable retrogression of the economy and the unleashing of massive suffering on millions of people, has come out with [a book](#) where he argues that poverty in large parts of the world is associated with adverse geographical factors, such as drought-proneness, desertification, infertile soil, and such like. He wants global efforts to help these economies which are the victims of such niggardliness on the part of nature. The fact that enormous poverty exists in areas where nature is not niggardly, but on the contrary bounteous; the fact that the very bounteousness of nature has formed the basis of exploitation of the producers on a massive scale, so that they are engaged in an acute struggle for existence precisely in the midst of plenitude; and hence the fact that the bulk of

the world's population continues to struggle for subsistence not because of nature's niggardliness but because of the incubus of an exploitative social order, are all obscured by such analysis. Keynes' faith in the miracle of compound interest would be justified in a socialist order, but not in a capitalist one.

*Prabhat Patnaik is an Indian economist, who has achieved international acclaim with his incisive analyses of various aspects of economics and politics. He is a professor at the Centre for Economic Studies and Planning in the School of Social Sciences at Jawaharlal Nehru University in New Delhi. Patnaik is currently Vice-Chairman of the Planning Board of the Indian state of Kerala. This article was first published in [People's Democracy](#) (5 July 2009); it is reproduced here for non-profit educational purposes.*

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