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MICHAL KALECKI'S CAPITALIST DYNAMICS FROM TODAY'S PERSPECTIVE

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Michal Kalecki, Lodz 1899-Warsaw 1970

"Kalecki's greatest achievement, among many, was undoubtedly his complete anticipation of Keynes' General Theory" (Lawrence Klein, 1975).

"It must be rather annoying for you"- Joan Robinson wrote to Kalecki in 1937 – "to see all this fuss being made over Keynes when so little notice was taken of your own contribution".

Kalecki published in Polish (1933) before Keynes' *General Theory* (1936), a demand-determined theory of national income and employment, centered on investment, with an expenditure multiplier, similar to those of Keynes. But his intellectual roots, methodology and arguments were original – and so were Keynes's.

- Money and the interest rate figure prominently in Keynesian theory and in the very title of the General Theory, have no role in Kalecki, for whom only the long term interest rate is relevant, within the limits set by the principle of increasing risk (of credit-financed investment).
- Keynes had a view of the volatility of expectations and the dependence of investment on “animal spirits” as well as “the state of the news”. Kalecki’s investors simply looked at the degree of capacity utilization (a flexible accelerator or capital-stock adjustment) and projected current profit rate into the future.

- Keynes had no particular views about income distribution – in spite of post-Keynesian developments in this area – while Kalecki had two distribution theories, one based on the relative propensities to consume of capitalists and workers, akin to the post-Keynesian approach, and one based on the degree of monopoly aggregated over all producers.
- Keynes's approach lent itself to be combined with an accelerator to produce economic cycles, which is what Roy Harrod did, followed by many others; Kalecki had a whole armory of complete models of economic cycles.

Moreover, both Kalecki and Keynes made outstanding contributions to other areas of economic thought. Keynes's ranged from probability theory to fiscal policy to the design of the international monetary system; Kalecki's from the theory of growth of the capitalist economy, to the theory and practice of socialist economic planning, to original criteria for the selection of investment projects.

Both Kalecki and Keynes were great economists on their own account and merits; stressing the relatively small overlapping of their demand-determined theory of employment and income – no matter how important - un-necessarily detracts from their greatness.

Besides his mathematical models of the economic cycle, in 1940 Kalecki produced a model based on the political economy of government fiscal policy and of capitalists' behaviour.

In theory full employment could be achieved via additional government expenditure, were it not for the government and capitalists' need to reproduce labour unemployment in order to keep wage rates and labour discipline under control.

In a nutshell, “A solid majority of economists is now of the opinion that, even in a capitalist system, full employment may be secured by a government spending programme, provided there is in existence adequate plan[t] to employ all existing labour power, and provided adequate supplies of necessary foreign raw-materials may be obtained in exchange for exports”.

As long, of course, as such government spending programme is “financed by borrowing and not by taxation”.

However, “we may expect the opposition of the leaders of industry [to such a policy of full employment] on three planes: (i) opposition on principle to government spending based on a budget deficit; (ii) opposition to this spending being directed either towards public investment – which may foreshadow the intrusion of the state into the new spheres of economic activity – or towards subsidizing mass consumption; iii) opposition to maintaining full employment and not merely preventing deep and prolongued slumps”.

Such objections subside in the slump, and are revived in the boom.

With lasting full employment workers would 'get out of hand' and the 'captains of industry' would be anxious to 'teach them a lesson’. Moreover, the price increase in the upswing is to the disadvantage of small and big rentiers, and makes them 'boom-tired‘ and ready to ally with capitalists.

Their pressure would probably induce the government to return to the orthodox policy of cutting down the budget deficit. “A slump would follow in which government spending policy would again come into its own.”

Seventy years later, what has changed in economic theory, and in the state of the world?

At least three fundamental things:

- the economic profession's consensus about the possibility of achieving full employment,
- the fiscal constraints on the sustainability of sovereign government debt, and
- the globalization of labour markets.

The macroeconomic consensus invoked by Kalecki, on the feasibility of full employment policies, did not last long. The effectiveness of expansionary fiscal policy was challenged on an escalation of arguments.

First, it was argued that government expenditure would “crowd out” private investment (See O.J. Blanchard entry on Crowding Out in the New Palgrave Dictionary of Economics, 2008). The idea neglects the possibility of private investment “crowding in” additional public expenditure due to the activation of its accelerator effect of higher primary demand.

Second, Ricardian equivalence was invoked, tentatively put forward by David Ricardo in the 1890s and re-discovered by Robert J. Barro in 1974. When government expenditure is raised, funded by borrowing, economic agents discount the future payments of higher taxes that they anticipate having to pay to service the higher debt. The effect is the same as it would be if expenditure was funded directly by higher tax: lower private consumption offsetting higher government expenditure.

Third, in the early ‘seventies the theory of so-called rational expectations was introduced by Lucas and others, which was a tendentious misnomer. They should have been called expectations *successful by definition*. The efficient utilization of all information available, by all economic agents, makes markets efficient. Nobody is ever surprised. Multipliers could then be lower than unity.

The final blow to the full employment feasibility consensus invoked by Kalecki is now the concept of an “Expansionary Fiscal Contraction”.

However, the tide is turning. The IMF latest World Economic Outlook (October 2012) contains a Box by its chief economist O.J. Blanchard arguing that fiscal multipliers have probably been under-estimated by IMF forecasts and policy documents, by the OECD and the European Commission.

Recent IMF research suggests that fiscal multipliers are in the range 0.9 to 1.7, rather than the customary assumption of their being around 0.5. In other words, the cost of fiscal consolidation may have been grossly under-estimated. “More research is needed.”

But more research is already available: the IMF Working Paper 12/190, by Batini-Callegari-Melina, July 2012,

- discredits the need for cutting public/social expenditure, for especially in a downturn expenditure multipliers can be up to TEN times larger than tax multipliers [BUT let us not neglect Moral Hazard (opportunism)]:
- finds absolute values for multipliers of the order of 2.5 instead of 0.9-1.7 as in the WEO:
- finds aggressive consolidation much more expensive than gradual in terms of GDP.

The second feature that differs markedly from Kalecki's time and framework is the record high level of sovereign debt. How can fiscal stimulus be feasible and sustainable in this situation?

Kalecki expected interest rate on public debt to be contained by monetary policy (as it was at the time of his writing and would be today were it not for the so-called "spread" in the euro-zone).

And in any case he envisaged interest on public debt to be financed out of a recurring capital tax – a solution technically unimpeachable though politically impopular.

Finally, since Kalecki's times there is an increasing integration of international trade and movements of production factors especially since about 1970, with a single temporary decrease in 2009, immediately reversed.

The globalization of world labour markets – through international migrations, de-localisation of output to lower-wage locations, but primarily through trade – has led to a deterioration of labour shares in national incomes: in 1985-2005 in advanced countries by 10 percentage points from 65% to 55% (IMF, World Economic Outlook, 2007), without its parallel increase in emerging countries where labour is still abundant.

The global crisis has made unemployment a cyclical worldwide phenomenon; conversely, calls for expansionary fiscal and monetary policies have been made (for instance in November 2009 at the G20 under IMF leadership) and implemented, though short lived and subjected to premature reversal.

In other words, Kalecki's political cycle is still there, but it has grown globally synchronized and possibly weakened on average by both the general weakening of the power of organized labour and by persistent international divergences in the timing of the cycle.

In conclusion, the Keynesian-Kaleckian view of capitalist dynamics is alive and well.

The IMF itself is reviving it, by stressing the high cost of fiscal consolidation. Obstacles to full employment policies are still of a political nature today (resistence to a capital tax to deal with exceptionally high sovereign debt). And globalisation is changing the pace and frequency of economic cycles but not their fundamental nature.

The time has come for a Kaleckian (and Keynesian) over-due revival.