

# Taming the Beast or Riding it?

Post-Keynesian Economics, Marxian Economics  
and Economic Policy

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# Map of this Talk

1. Public policy and economic policy: some basics
2. Theories of economic policy are theories of capitalism and state power
3. Neo-Marxian responses to imperialist reach: Blocking the Beast
4. Neo-Marxian responses to crisis: Confronting the Beast in its Lair
5. Keynesian policies for hegemonic nations: Taming the Beast
6. Keynesian policies for non-hegemons: Riding the Beast
7. Industrial policies for the not-yet-hegemonic South:  
Learning from the Beast
8. Are Marxian and Keynesian views consistent?

# Map of Names to Pursue into the Stacks

3. Neo-Marxian responses to imperialist reach: Blocking the Beast  
*Michael Hardt and Antonio Negri (Empire, 2001), Amiya Bagchi, Samir Amin, Arrighi Emmanuel, Edward Said, Fernand Braudel ...*
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6. Keynesian policies for non-hegemons: Riding the Beast  
*Eugenia Correa, Noemi Levy, Fernando Cardim Carvalho, Sunanda Sen*
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# 1. Public policy and economic policy: some basics

- At the bottom of the divide between orthodoxy and heterodoxy in economic thought is the nature (o)/nurture (h) debate: Does society create the human or does the human create society?
  - From the heterodox view, economic policy encompasses and provides the frame for public policy, creates that space.
  - From the neoclassical viewpoint, economic policy is a branch of public policy; the same criteria apply to both. People can choose to intervene, or not, in their mutual affairs.
- We start, here, by considering the motivation for and object of “public policy”.
- Motivation: we look out over the landscape of the society in which we live, and imagine a rule that will improve “social welfare”.
- “What is the problem you are attempting to solve?” and ..
- “What is the solution to your problem?”

# 1. Public policy and economic policy: some basics

- So we engage in public policy because we want to make things “better” ...
- What is the reference point for “better”?
  - *Things as they are*
  - *Things as they should be*
- Who is “we”?
  - Local community (people we can name)
  - Region (Catalonia, Indiana, West Yorkshire)
  - Nation (Brazil, “Latin America”)
  - “World” (All human beings; or the entire biosphere)

***[Random provocation:] Is “the environment” the whole of the world, or the background for the conduct of human life?***

# 1. Public policy and economic policy: some basics

*Things as they are:* we accept property relations, social relations in really-existing society, and ask:

- How can we make things better for some or all, without making anyone worse off in net terms?
- Pareto optimality: not resource-based, but preference-based
  - Will a set of taxpayer/voters agree that a given change (gain – cost) will improve social welfare? Or changes ...?
  - Two or more changes: Arrow's Impossibility Theorem – this cannot be solved.
- So we accept the market as the primary mechanism for resource allocation, and the state as only supplemental, post-hoc
- In economic policy, the search is for areas of market failure – especially, unpriced “spillovers” or “pure public goods”

# 1. Public policy and economic policy: some basics

## Implications of *Things as they are*

- A rejection of activist (re-distributionist) macroeconomic policy
- Stasis as the norm: politics as regression to the mean
- Interventions should be surgically precise – the *new (experimental) development theory* in economics

But: any one policy change can have many “spillovers” ... These cannot be itemized or known in advance, especially given we live in a complex system

- And: policy changes do not occur one by one, but cumulatively
  - SO: Policy changes can have unintended/dramatic effects
    - EG from California: Three-strikes law + Erica’s law + Felon release policy = homelessness for ex-felons
- And ruling governments elected with thin votes can appear to go “too far” from the viewpoint of their opponents

# 1. Public policy and economic policy: some basics

*Things as they should be:* We begin with an ideal, a moral perspective on human rights, and/or on ideal social relations.

*Human rights: Minimum living standard; human development measure*

*Ideal social relations: Limits on the extent of inequality among people*

If we then accept property and social relations *as they are*, we have a contradiction (*as it is / as it should be*) and we have to ask:

- How can we make things sufficiently better, for at least some, that we are acting consistently with our ideal(s), without setting in motion oppositional forces that will remove us from power?
- Pareto optimality? No. There will be winners and losers.
- We will want to shape/influence/transform market resource allocation by using the state as only supplemental, post-hoc
- Not a search for “market failure” but for market transformation



## 2. Theories of economic policy are theories of capitalism and state power

- *Marxian approach*: Capitalism is a beast, that contradicts human species-being, sets in place a self-expanding logic in which owners exploit workers and expropriate the social surplus, and involves innumerable contradictions (failures to coordinate) and conflicts
- *Keynesian theory*: The beast can be tamed. How?
  - Aggregate demand – enough buying power “for all”
  - Social conflict is distributional, and can be moderated by reducing risk
- *State power*: The question is, how much control do you need, over which levers of the economy, to move toward the world of “things as they should be”?

## Prolegomenon to 3 and 4: Marxian or Neo-Marxian economic policies?

- Premise: if capitalism's character is inhuman (alienating people from their 'species-being'), and if its self-expanding character leads to increasing inequality (the "1%") and to our failure to adopt viable technologies due to imposing high hurdle rates of return ("20% or we don't invest")
- And if private decisions based on profit-seeking always dictate "choices" about investments that shape social space, then confrontation - not compromise – is needed. This seems to define a Marxian view. Contradiction is progress.
- So we shift to a Neo-Marxian view: to work within the frame of the system to transform social relations, overturning capitalism by changing its nature. How? Where?

### 3. Neo-Marxian responses to imperialist reach: Blocking the Beast

- The world is structured into capitalist core(s) and peripheries, and the core wants to break down barriers to market entry (both national tariffs, cultural practices)
  - The IMF as police for the core capitalists, the World Bank are recruitment specialists
- Economics of demand exhaustion (Rosa Luxembour): a self-expanding, continually more productive, system requires a continually expanding set of markets to which to sell
- Dependency theory: break these ties to better facilitate autonomous national (capitalist) development
  - Example: South-South trade links
  - Challenge: China as a new imperialist in Africa, South America?

## 4. Neo-Marxian responses to crisis: Confronting the Beast in its Lair

What do you do in the global North (“home” of the beast)?

- Regulate it: reduce the required rate of profit and constrain the free movement of capital across borders?
- Put sand in the wheels of commerce (Occupy movement) and shame the capitalists?
- Check out of the system (non-market exchanges, LETS and other alternative currency systems, cooperatives)?
- Elect governments that will carry out the agenda of working-class gains and oppose capitalist prerogatives?
- Elect governments that will take on embedded centers of power and privilege rooted in exploitation and predatory practices?
- Overturn governments that focus on saving capitalists’ prerogatives and preserving its systems of circulation, production/reproduction?

## 5. Keynesian policies for hegemonic nations: Taming the Beast

- The problem 1: profit, when earned, is controlled by capitalists who will not spend it. So there is always a search for new markets into which to sell. (Luxembourg/Kalecki)
- The problem 2a: Profit cannot be earned because there is insufficient demand for the goods whose purchase will validate it. (Keynes)
- The problem 2b: Substitute ‘wages’ for profits in 2a.
- The problem 3: Wages and profits cannot be earned because banks/financiers do not make productive credit available. (Stiglitz)
- The problem 4: Wages/profits cannot be earned because the burden of debt or financial instability are making stable accumulation impossible. (Minsky)

## 5. Keynesian policies for hegemonic nations: Taming the Beast

- On problem 1 (*Profits*): Shift toward wage-led growth and away from profit-led growth: raise minimum wages, tax profits and/or wealth more heavily, allow for an organized worker voice at the ‘bargaining table’ (Stockhammer, Oznaran, Sawyer)
  - “Force” capitalists to invest: Kalecki – Capitalists earn what they spend (the profits earned in a capitalist economy equal the investment level).
  - If capitalists will not or cannot invest, the state must do it, via public works, infrastructure investment, and so on.
- The problem 2a/b (*Aggregate demand*) Increase level of demand by any means (Keynes: bury currency so people will dig it up).
  - “Modern monetary theory” (Wray, Levy Institute): set employment targets and use a “functional finance” approach, freely print money and put people on public fisc to get there

## 5. Keynesian policies for hegemonic nations: Taming the Beast

- The problem 3 (Credit rationing limits productive economic activity): Reestablish financial institutions that provide credit and capital for needed public infrastructure, for ‘national champion’ industries, a la 1980s/90s Korea (Stiglitz)
  - Revitalize the European Investment Bank
  - Force banking institutions into a productive role again by restricting or ‘ringfencing’ their speculation or limiting their size.
- The problem 4: Wages/profits cannot be earned because the burden of debt or financial instability are making stable accumulation impossible. (Minsky)
  - Tighten regulation to reduce losses from the financing of bubbles and overemphasis on speculation
  - Maintain Big Bank and Big Government policies so that full recovery from occasional financial crashes is readily done.

## 6. Keynesian policies for non-hegemons: Riding the Beast

- Developmentalism: “import-substituting industrialization” = infant-industry protection, control of credit, assurance of increasing human capital and asset-building
  - BNDES in Brazil as a new paradigm for control of – and increase in - economic growth
- Inflation constraint: Maintain controls over monetary policy and price setting, or undercut the sources of these problems.
- Foreign-exchange constraint: Appease Wall Street speculators and maintain good fundamentals, and/or establish capital controls.
  - So currency cannot be printed without end, nor can public guarantees of a job for everyone be promised.



## 7. Industrial policies for the not-yet-hegemonic South: Learning from the Beast

- Kicking away the ladder, Ha-Joon Chang:
  - Using public resources to build infrastructure, and then defaulting on the resulting debt
  - Integrated planning
  - Strong protection of infant industries
  - Radical re-assignments of property rights
  - Technology thefts (“transfers”): Imitate and take market share
    - Look up the role of Samuel Slater (UK name: “Slater the Traitor”) as the creator of the US industrial revolution
- ASEAN and South-South trade?
- China: following the rule or the exception that proves the rule?

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## 8. Are Marxian and Keynesian views consistent?

### 1. *The problem of the surplus:*

- Marxians see profit as evidence of the contradictory impulse at the heart of capitalism, proving its ultimate instability. Class conflict is there – the zero-sum game – is inherent in capitalist competition, evidence of its self-destructive tendencies.
- Keynesians see the system as having a growth imperative, which is the only means of overcoming stagnation. You have to grow your demand, to keep suppliers interested. Growth buys out your class contradictions. As long as you grow, everyone can have more.
- But! Kalecki, “Political Aspects of Full Employment,” suggests it cannot be so cozy – the capitalists will strike if their margins are too threatened.

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### 2. *The problem of asymmetric power*

- Marxians see the economy as a landscape of power. Profit is the elixir of the system. The “global factory” and free capital mobility create an asymmetry in “exit options” between employer(s) and workers, globally. The result is an artificial shortage of capital, maintained by its continually renewed threat to leave ... the availability of safe arbitrage plays like the carry trade, and the global regulatory game of *Three-Card Molly*.
- Keynesians mostly ignore power. Staying at the aggregate level of analysis, invisibilizes other “social relations of production” and makes them inconsequential.
- A key example here is power in finance. The era of financialization involves not just the volume of financial relations and debt, but the systematic transformation of controls over market relations and over risk-bearing. The distortion in the use of the public fisc – to bail out TBTF banks – doesn’t enter into Keynesian theory.

## 8. Are Marxian and Keynesian views consistent?

### 3. *The problem of exploitation:*

- Marxians ground exploitation in labor process. What do we do with a capitalism that has shifted the spatial basis of production so that many former workers are rendered surplus, unneeded? Do we have the super-exploitation of the few in the global South as the basis of capitalist profits?
- Keynesians argue for lower interest rates, to “kill the rentier”, but do not generally address the problem of exploitative lending rates as a component of economic processes in many nations. Is the fact that much of the working class around the world is paying exorbitant rates of interest to cover its cash-flow gaps not relevant for Keynesian analysis?
- So...who are exploited, and who constitutes the class that can overcome its rage and/or its shame and can fight back?

## 8. Are Marxian and Keynesian views consistent?

### 4. *The problem of crisis and instability:*

- Marxians see crisis as clearing the way for new rounds of accumulation based on a renewal of the conditions necessary to exploit labor in production (services industries). Really? Are we in another cycle, and can we be sure that economic dynamism will return?
- Many Keynesians follow Minsky in seeing financial instability as a natural process. It happens, then the Federal Reserve cleans it up. Really? How well has quantitative easing worked?
- Are both views based on the view that the macroforces at work are larger than any efforts to block them, by policy-makers at any level. So .. Nothing to be done?
- If you don't think austerity is working, where are the Keynesian – or Marxian – proposals for next steps to a more prosperous (and greener) social world?

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