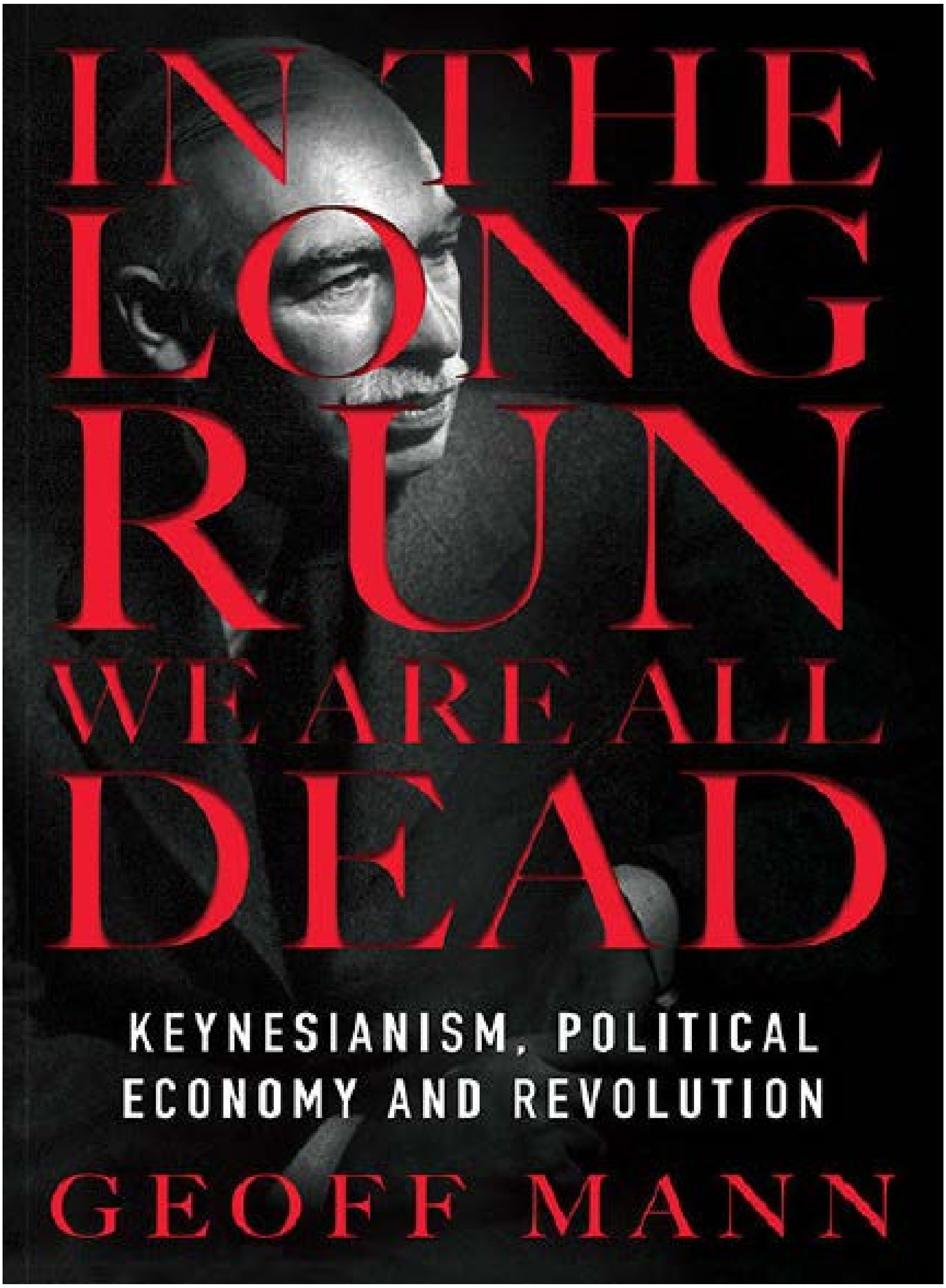
PART 4

After Keynes



CHAPTER 12

Keynesian Political Economy and the Problem of Full Employment

It is well-known that the massive state investment and economic planning required by World War II gave Keynes both ample opportunity to promote his ideas and an attentive audience for them. But by early 1942, the bureaucracies of some of the Allied nations were feeling sufficiently optimistic to turn their attention to the world after the war. Keynes himself was working with the British Exchequer in an ill-defined advisory role—one biographer describes his assignment as being "just Keynes"—when he received some draft chapters of a report entitled *Social Insurance and Allied Services*.[1] The document, later known as the Beveridge Report and arguably the welfare state's founding document, described a postwar Britain in which state-coordinated full employment, social insurance, and a national health service would ensure the end of capitalism's indiscriminate volatility and instability. Keynes told Beveridge he read the chapters with "wild enthusiasm." How "wild" he really was we cannot be sure—he was as prone to overstated praise as he was quick on the attack—but in any event he seems to have had no interest in the institutional structure or politics of the welfare state that now bears his name. When the ideological battle lines were drawn following the report's publication in December 1942, he was studiously quiet, neither for nor against.[2] What he was concerned about was its affordability.

His silence is probably at least partially attributable to the "socialist" bent of both Beveridge and his plan. But Keynes's initial enthusiasm is easily understandable in the wake of the troubled 1920s and 1930s and the populist authoritarianisms to which he believed they led. As Beveridge put it, quoting Charlotte Brontë in the frontispiece to his *Full Employment in a Free Society* of 1944, "misery generates hate," and the war was for Keynes only the latest addition to the overwhelming evidence that was true.[3] As such, any argument that the state could indeed "afford" to address the problem of misery was welcome. It was another contribution to the project Keynes had begun the previous decade with *The General Theory*.

For the Great Depression had made unemployment the political *and* economic problem of the age. It demanded a radical reconfiguration of social science and state policy, and for the first time, it had made joblessness a national question.[4] It was certainly of interest to economists before Keynes's time, but its place at the core of modern macroeconomics was cemented by *The General Theory*; indeed, macroeconomics is unthinkable without it. After the Depression, and after Keynes, unemployment became the single most important indicator of social welfare in liberal capitalist states and remained so until the late 1970s (at which point it obviously did not disappear; rather it was trumped, in the eyes of the state and elites, by inflation). Keynesian economics' long-standing, if uneven, influence is surely due in great measure to the fact that *The General Theory* represents the first systematic political economic framework oriented to the analysis of unemployment. After World War II, no one thinking or writing about unemployment in the industrialized capitalist part of the world could ignore his work, and there were (and are) a lot of people thinking or writing about unemployment.[5]

In that impending postwar moment in the Euro-American capitalist core, when the state-organized war production that had solved the problem of unemployment was no longer necessary, many (Keynes included) feared the Depression would return. That it did not—on the contrary, that the state helped coordinate the longest economic expansion and the highest employment rates in recorded history—was celebrated as the greatest triumph of political economy the world had ever known. The science of government appeared to have solved the problem of the age. And the benefits enjoyed by "modern communities" as a result extended far beyond higher productivity and consumption. At least as important was the mitigation of a rabble mentality, through the refoundation of what Hegel called the "principle of civil society": the "feeling of self-sufficiency and honour among its individual members." As Beveridge put it, "the greatest evil of unemployment is not physical but moral, not the want which it may bring but the hatred and fear which it breeds."[6]

Yet, if we can describe broad agreement on the historical motivations for Keynesianism, and consequently on Keynesian economists' quasi obsession with unemployment, there are nonetheless vast differences in their approaches to unemployment, from work partially informed by Marx (the theory of the "reserve army of labor" in particular), to business-as-usual mainstream estimations of the "natural rate of unemployment."[7]

At first glance, the fact that this range, from neoclassical synthesis to class analysis, can all fit under the "Keynesian" umbrella might seem almost absurd. In this chapter and the next, I want to consider this potential absurdity. How dispersed are the modern varieties of Keynesianism on the key question of unemployment, and what, if any, terrain do they share? Taking two sharply contrasting contributions—the work of Michał Kalecki on the one hand, and that of arguably the most respected New Keynesian of our time, Joseph Stiglitz, on the other—has much to tell us about the forms the Keynesian critique can take. If we focus on the specifics, their respective analyses of the same problem, that of the class politics of unemployment, we can see their differences are not due to one or the other having tapped into "What Keynes Really Meant," or the Truth—for they could certainly both be True—but are instead a function of the dialectic of hope and fear that beats at the heart of Keynesianism.

This is why Keynes could give his stamp of approval to many different, sometimes seemingly incompatible, approaches that attempted to embrace his ideas. His pragmatism made him much less worried about the means by which one found one's way to his conclusions, as long as one found one's way there in the end.[8] This means that although differences in analytical apparatus led to very different recommended interventions, insofar as they recognize (as Joan Robinson puts it) "at the philosophical level, that the mechanisms of a 'free' capitalist system are inherently incapable of regulating themselves," all of them are equally engendered by the post-Robespierre Keynesianism outlined in previous chapters.[9]

The Impossible Dream of Full Employment

If some postwar Keynesians believed they had found the "solution" to the problem of unemployment, it certainly did not mean it lost its new place at the core of economics and political economy. Even if the problem itself seemed to have disappeared, the utter failure of the "classical" response during the Great Depression, and the hegemony of Keynesianism in the postwar era, meant the disappearance was attributed to that state's obsessive vigilance.

This is what Milton Friedman—among the most influential anti-Keynesian economists of the twentieth century—meant when he (not Richard Nixon!) said "We are all Keynesians now."[10] The political and social legacies of the 1930s (populism, poverty, fascism, and radical left movements) so saturated the immediate postwar decades that even libertarian neoclassicals could not avoid being Keynesians. Like Friedman, many non-Keynesians, using classical theories to examine problems other than unemployment, inevitably found themselves asking Keynesian questions about unemployment.

This is the moment at which Kenneth Arrow formulated his famous "impossibility theorem."[11] (He later won a Nobel Prize for his formal proof of Walrasian general equilibrium, about as un-Keynesian an effort as one might imagine, at least within the confines of economics proper.) Using the logic of set theory, Arrow was investigating a kind of liberal thought-Utopia: "we ask if it is formally possible to construct a procedure for passing from a set of known individual tastes to a pattern of social decision-making." If so, the resulting "social welfare function" would serve "as a justification for both political democracy and *laissez-faire* economics or at least an economic system involving free choice of goods by consumers and of occupations by workers."[12] In other words, working in a realm of hyperabstraction that might have left Hegel or Keynes slack-jawed, Arrow sought an analytical procedure to realize something like Hegelian ends with Kantian means, to bring the general and the particular together in a way that nonetheless leaves the latter radically autonomous from the former. In this vision, there is no need for the individual to come to understand his or her interest as also the universal interest of the state, no need for an "ethical" transformation. Instead, the status quo of capitalist civil society generates a collective decision that allows every particular to realize its ends simultaneously. There is no dialectically unfolding social totality, just the authoritative technical determination of a social welfare maximizing (market-based) aggregate of independent individual choices—the best of all possible (liberal) worlds.

This too is potentially a very un-Keynesian project. But Arrow's conclusion—that this liberal Promised Land is *impossible*—is the most Keynesian outcome to which it could lead. We might even read it as a logical "proof" of the fundamental Keynesian proposition: even by its own atomistic standards, and even with only "mild-looking conditions that would seem to reflect elementary demands of reasonableness," liberal capitalist or bourgeois civil society cannot solve its own contradictions.[13] The only methods that can "guarantee the existence of an equilibrium under every possible pattern of individual preferences are dictatorial."[14] In Arrow's words:

> the market mechanism does not create a rational social choice … it is not surprising, then, that such ethics can be no more successful than the actual practice of individualism in permitting the formation of social welfare judgments.[15]

Liberalism cannot ground *Sittlichkeit;* its abstract claims to construct a world on the basis of *Sollen* are untenable, even in a thought experiment. Arrow made this very clear: "My own feeling is that tastes for unattainable alternatives should have nothing to do with the decision among the attainable ones; desires in conflict with reality are not entitled to consideration." It is almost as if Arrow stepped behind Rawls's rational "veil of ignorance" a Kantian and came out a Hegelian.[16]

Others, similarly struggling to confront the new situation, were coming to similar conclusions—unintentionally, even reluctantly, becoming Keynesian. Paul Samuelson, for example—he of the "neoclassical synthesis"—was at exactly the same moment formulating a theory of public expenditure and public goods that demonstrated the necessity of some agent of social welfare. Not only was *everyone* worse off without state provision, but what the state provided (goods from which there was zero expected yield, because they were impossible to privatize) were keystones in the structure of civilization: infrastructure, water, clean air, peace.[17] One could imagine Hegel, were he able to make any sense of it, saying, "I told you so."

In fact, the story of Arrow's impossibility theorem, now seen as the founding contribution to social choice theory, and the related question of public goods, is in some ways a case study in the politics of postwar economics. On the one hand, Arrow's own analysis—what Samuelson called his "mathematical politics"—has been taken up largely by those interested in elaborating the Keynesian conceptual and policy arsenal: economists and other social scientists examining public goods and microeconomists with Keynesian sympathies.[18] These economists—including Amartya Sen, another Nobel laureate and student of Joan Robinson—have challenged the fundamental assumptions of orthodox microeconomics in a manner analogous to the Keynesian effort in macro. They refuse the standard model of individual economic agency and emphasize the ways in which agents' behavior in the world in which we actually live is rarely captured by *homo economicus* and optimization. For instance, Sen has formulated a social choice framework that takes account of what he calls "other-regarding" and "altruistic" preferences that, if it were to bother to respond, would cause mainstream microeconomics significant problems by shaking the behavioral foundations of general equilibrium.[19]

On the other hand, the "impossibility" result elicited a robust reaction among anti-Keynesians. Led by James Buchanan and Gordon Tullock, American economists, and members of Friedman and Hayek's "neoliberal thought collective" the Mont Pèlerin Society, the so-called "public choice school" responded with barely contained outrage at the pomposity of "moral philosophers'" suggestion of any such thing as collective choice or collective rationality.[20] Their critique of Arrow is ultimately founded in what Keynes disdained as "Benthamite calculus": a methodologically individualist utilitarian (or "welfare") denial of both the possibility and the legitimacy of a supra-individual rationality by which a social welfare function might be judged.[21]

That rationality, however—a precondition of the "social inter-est"—is of course essential to a Hegelian–Keynesian ontology. We might even call it Keynesianism's *Geist* or Spirit. Indeed, anticipating in some ways the argument here, Sen traces the origins of social choice theory to the French Revolution, which, having posed problems for which it did not wait for "a peacefully intellectual solution," drove the post-Revolutionary era to seek ways to avoid such "instability and arbitrariness," just as Hegel himself said.[22] Arrow's analysis readily builds on these earlier efforts, "mathematically" walking postwar economics, however unwillingly, to the Keynesian precipice and forcing it to look over the edge. With or without a formal "mathematical" apparatus, this is what Keynesianism has been doing since Thermidor.

In fact, some have argued that the immediate legacy of Robespierre's "Arrovian chaos"—the threat of "violence, sufficient to destroy the conditions for existence of economic equilibrium and thus of dynamic equilibrium"—led the post-Revolutionary bourgeoisie to question democracy entirely and laid the grounds for Napoleon's imperial legitimacy.[23] If so, it is further confirmation of the account of Keynesianism in these chapters, for an inescapable problem that Arrow tried to confront is that outside of "*une volonté UNE*," any practicable effort to deal with the impossibility theorem appears necessarily antidemocratic. The only solution—in the language of social choice theory—is “dictatorial.”[24] Hegel came to a similar conclusion and endorsed constitutional monarchy; Keynes relied on the vigilant containment of key questions like poverty within the expert halls of the bureaucratic “universal class.”[25] As the three chapters in this part of the book show, driven by similar if necessarily differently cast concerns, post-World War II Keynesian economics—the hegemonic economics of its era—could not help but come to similar conclusions.

Kalecki on the “Political Aspects of Full Employment”

Against the flow of discursive tradition within Keynesian economics since World War II, then, what bears emphasis is less what mode of analysis counts as “truly” Keynesian—formal or not, faithful to the technical details of *The General Theory* or not, and so forth—but rather what modes of analysis Keynesianism can support, the diversity of modern ways of knowing it can animate and sustain. Ultimately, Keynesians are distinguishable not by *how* they come to know what they know (their epistemological or methodological apparatus), but by *what* they know (liberal capitalist modernity produces the seeds of its own destruction) and *why* they know it (reasoned consideration of the concrete “facts of experience”).

Michał Kalecki stands near one end of this range of Keynesianisms, and his work can tell us much about the radical potential in Keynes’s thought. Kalecki was a Polish economist who, by a series of fateful twists and turns, briefly ended up in Cambridge (with some assistance from Keynes himself) in the late 1930s. Although not so extreme a case as his colleague Piero Sraffa, he is one of those scholars whose extraordinary influence has little to do with the quantity of his scholarly contributions. Like Sraffa, he produced a smaller number of exceptionally powerful interventions. Whether his fellow economists agreed with him or not, his brilliance and humility were widely admired. Indeed, the devotion he continues to inspire among some heterodox economists is such that they will feel offended I have labeled him a Keynesian, since this suggests his achievement was somehow derivative. They might point to the fact that prior to his arrival in Cambridge—and prior to the appearance of *The General Theory*—Kalecki published work in Polish that partly anticipated Keynes’s book, and a 1935 article in English is occasionally said to have beaten Keynes to the punch. There even remains a group who claim he was a co-“discoverer” of the “economics of Keynes.”[26]

In light of the account of Keynesianism I have developed here, however, we can simply sidestep the problem of “discoverer” status. Whether or not Kalecki co-discovered effective demand with Keynes is no more important to an understanding of Keynesianism than if Hegel beat both of them to it. The biggest and most important difference between Keynes and Kalecki, however, is that the latter had read Marx and been trained in Marxian thinking. Reading his work, it is occasionally possible to see him as a bridge between Keynes and Marx, particularly in his emphasis on the disciplinary necessity for capitalism of a pool of unemployed workers like those Marx included in the “reserve army of labor.”

But, if we take a closer look at his most fully developed work—like *Theory of Economic Dynamics: An Essay on Cyclical and Long-Run Changes in Capitalist Economy* of 1954—it is difficult to wedge it into a Marxian frame. If we are forced to apportion the content of his thought, it is more Keynesian than Marxian, even on the question of the reserve army. He is best understood as a Keynesian economist with some radical political sympathies and thus more willing than most to take Marxian ideas seriously.[27]

The influence of these ideas is most visible in his innovative work on a glaring “practical” problem Keynes entirely neglected but that is central to Marxian economics: the degree of monopoly in an economy, a feature associated with “the process of concentration in industry leading to the formation of giant corporations” and the “commercial revolution” through which “price competition is replaced by competition in advertising campaigns, etc.”[28] Kalecki argued that trade unions’ power to affect the functional distribution of income between capital and labor tends to keep the degree of monopoly down by depressing profit rates, and that there is consequently a tendency for monopolistic power to rise in a “slump” and decline in a “boom.”[29] But the degree of monopoly is not only significant in the struggle between workers and bosses over the surplus. It is also self-expansive, insofar as it redistributes income from small to big business, since profits tend to be higher in monopolized sectors. The degree of monopoly thus “has a general tendency to increase in the long run,” which, in combination with the fact that in Fordist mass production, innovation is concentrated on the labor process, leads to a diminishing share of income for wage earners relative to capital.[30]

While capitalism’s tendency to mass impoverishment is widely (and justifiably) associated with Marxist analysis, the distinctiveness of Keynesianism lies in its theorization of this dynamic, what it means for the social order, and what to do about it. Kalecki was far more Keynesian than Marxian on these fronts: as he said, clearly responding to classical critics of Keynes’s “paradox of poverty in the midst of plenty”:

> The tragedy of investment is that it calls forth the crisis because it is useful. I do not wonder that many people consider this theory paradoxical. But it is not the theory that is paradoxical but its subject—the capitalist economy.[31]

Like Keynes and Marx, Kalecki was interested in the self-destructive social relations endogenous to the political-economic dynamics of liberal capitalism, but his more strictly economic analysis shares several fundamentals with *The General Theory* in particular. Kalecki too emphasizes both the inevitable “supply-demand mismatch” resulting from uncertainty associated with what Keynes called “expectations”—“capitalists’ investment and consumption are determined by decisions shaped in the *past*,” as Kalecki puts it—and (against the “classicals”) the dominance of short-run dynamics in economic considerations.[32] His saving-investment function is very like that proposed by Keynes and puts investment, not production, at the center of economic analysis. It rejects the “loanable funds” theory of the interest rate, since “investment ‘finances itself’”: through a Keynesian liquidity function, “investment automatically brings into existence an equal amount of savings.”[33]

In addition, Kalecki’s model of the business cycle captures dynamics very much like the “fundamental psychological law” and the “curse of Midas” so central to *The General Theory*. Much as Keynes argued that diminished expected profits (a declining marginal efficiency of capital) required modern communities approaching full employment to “sufficiently impoverish” themselves to reinvigorate entrepreneurial animal spirits, Kalecki’s model includes a coefficient of “crucial importance” that indexes both the less-than-full “reinvestment of saving” and the “negative influence upon investment of the increasing capital.” Which is to say that when the proportion of savings reinvested is less than unity (merely a variation on the “fundamental psychological law”) and further capital accumulation would reduce expected yields (the “curse of Midas”), “the slump is started.”[34]

This coefficient alone is sufficient to Keynesianize a model, injecting an inevitable tendency to decline, disorder, and volatility, if only in the short run, into the heart of a theory of capitalist dynamics. Moreover, Kalecki is carefully Keynesian in showing that the cyclicality implied in the model’s emphasis on the short run does not mean that the capitalist dynamic is eventually self-regulating. He points out that, on the contrary, the longer run promises of the classical and neoclassical adherents are by no means guaranteed, since the stimulus produced by capital destruction in a slump will be weaker than that driven by accumulation in a boom (because in a slump, what is destroyed is already idle). This means that "the reserve capital equipment and the reserve army of unemployed are typical features of capitalist economy at least throughout a considerable part of the cycle."[35] In capitalism, involuntary unemployment is the "normal" state of affairs.

Kalecki's "reserve army of unemployed," however, is not necessarily Marx's; and it is not exactly the rabble, either. The reserve army for Marx is an elastic supply of labor, often based in noncapitalist modes of social reproduction like subsistence agriculture or the household, which allows labor supply to shrink and expand to meet the needs of capitalist labor demand. It is "endogenous" only in the strictly economic sense—as a supply factor, its quantities are not exogenously given.[36] The rabble, as we have seen, is an endogenous precipitate of capitalist social relations composed of those so dishonored by that social formation that they are much closer structurally and politically to Marx's *lumpen*. Its existence, qualitatively and quantitatively, is entirely attributable to liberal capitalist civil society. Kalecki's reserve army of *unemployed*—not those capitalism has yet to incorporate, but those it has sloughed off—effectively bridges the two concepts in a manner that speaks to the times in which he worked. In 1943, he theorized the problem of mass unemployment as a Marxian class-political dynamic that generates a Keynesian "economic" outcome; by 1954 he emphasized a Keynesian "economic" dynamic that leads to Marxian "political" outcomes.

A Keynesian Critique of Keynes

Kalecki's consideration of the problem of unemployment is essential, then, at least partly because it constitutes a fundamentally pragmatic critique of Keynes's politics. Kalecki is compelled by Keynes's explanation of endogenous involuntary unemployment, but he remains unconvinced by Keynes's Hegelian faith in the capacity of the state to produce a sufficiently legitimate "universality" to overcome the distinctively *political* barriers to "full employment" and honor among the masses. Keynes's and his various acolytes'

> assumption that a government will maintain full employment in a capitalist economy if it only knows how to do it is fallacious. In this connection the misgivings of big business about the maintenance of full employment by government spending are of paramount importance.[37]

The problem, according to Kalecki, is that class matters in capitalism, and political economy and economic policy are realms saturated in ideological and political-economic struggle. If it were really just Reason that shaped these realms, the "world in which we actually live" would make little sense: "businessmen in a slump are longing for a boom; why do they not accept gladly the 'synthetic' boom which the government is able to offer them?" The reasons they do not act as rational self-interest suggests they should are evident as soon as we drop the assumption, to which Keynes was normally quite sensitive, that the questions of concern can be contained to the economic realm. For Kalecki, the questions are clearly not merely economic, and the reasons for business opposition are evidence of the material, political, and ideological forces at work in the economy.

The reasons are three, all of which are ultimately attributable to liberalism. First, capital—the class composed of capitalists—is opposed to "government interference" on principle. Under *laissez-faire* conditions, capital exercises de facto hegemony: as Keynes showed, "the level of employment depends to a great extent on the so-called state of confidence."

Capitalists thus always have "powerful indirect control over government policy: everything which may shake the state of confidence must be carefully avoided because it would cause an economic crisis." When the government "learns the [Keynesian] trick" of increasing employment on its own, "this powerful controlling device" is rendered much less powerful. In other words, writes Kalecki, the "social function of the doctrine of 'sound finance'" is political-ideological: "to make the level of employment dependent on the 'state of confidence.'"[38] This diagnosis of the motives for capitalists' and mainstream economists' endless attacks on government debt remains accurate today. The more the state or other collective agents are prevented from participating in the economy, the more income and wealth generation becomes the business of business alone. To the extent that the public accepts the doctrine of "sound finance"—what in "normal" times would today be called "tight money" and balanced-budget "fiscal conservatism" or in crisis times is called "austerity"—the more capital's hegemony is reinforced.[39]

The second reason capital resists a state-coordinated boom is partly a function of "economic interest"—because public investment supposedly "crowds out" the private sector—but is to an even greater extent "ethical," and ethical in precisely the sense of Hegel's *Sitten*. Public investment or, even worse, subsidized mass consumption (as Hegel put it, addressing the same problem) "would be contrary to the principle of civil society and the feeling of self-sufficiency and honour among its individual members." In Kalecki's words, "here a 'moral' principle of the highest importance is at stake. The fundamentals of capitalist ethics require that 'You shall earn your bread in sweat'—unless you happen to have private means."[40]

The third and final reason capital does not necessarily act as a reasonable Keynesian hope is that, as a class, it is liberal in the dogmatic, myopic sense Keynes and Hegel attacked. It is not sufficiently worried that the emergence of the rabble will lead to a revolutionary "destruction of existing economic forms in their entirety." Its ideological blinders prevent it from seeing that "in the long run we are all dead." On the contrary, it fears the "social and political changes resulting from the *maintenance* of full employment," and is thus concerned to avoid the Keynesian path precisely because it might succeed.[41]

> Indeed, under a regime of permanent full employment, "the sack" would cease to play its role as a disciplinary measure. The social position of the boss would be undermined and the self-assurance and class consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tensions. It is true that profits would be higher under a regime of full employment than they are on the average under *laissez-faire*; and even the rise in wage rates resulting from the stronger bargaining power of the workers is less likely to reduce profits than to increase prices, and thus affects adversely only the rentier interests. But "discipline in the factories" and "political stability" are more appreciated by the business leaders than profits. Their class instinct tells them that full employment is unsound from their point of view and that unemployment is an integral part of the capitalist system.[42]

Capital admits that for many, in the conditions that typify modern civil society, "that feeling of right, integrity, and honour which comes from supporting oneself by one's own activity and work is lost." What it denies is the Hegel–Keynes corollary, that this situation is a *result* of capitalism, not the fault of the poor and unemployed themselves.

In this sense, and this is a product of the reluctantly radical dimension of Keynesianism to which Kalecki is particularly sensitive, capital—both as a set of assets and as a class—is a substantial part of the problem. On the one hand, the necessary scarcity of capital-assets, the precondition of yield, generates an endogenous constraint on the entrepreneurial paradise classical and neoclassical theories posit as the default state of capitalism:

> Many economists assume, at least in their abstract theories, a state of business democracy where anybody endowed with entrepreneurial ability can obtain capital for starting a business venture. This picture of the activities of the "pure" entrepreneur is, to put it mildly, unrealistic. The most important prerequisite for becoming an entrepreneur is the *ownership* of capital …[43]

Such ownership is of necessity unevenly distributed. As Piketty has also recently reminded us (see Chapter 14), it is axiomatic that not everyone can be a capitalist, and capitalism is "naturally" disequalizing and destabilizing.

Consequently, and contrary to orthodox growth theory, capitalism does not inherently contain in its self-expansion the promise of increasingly well-distributed wealth, because "an increase in the number of paupers does not broaden the market."[44] Again, we return to Robespierre's and Hegel's focus on excessive wealth and poverty side by side. Keynes described a related situation in which we have a glut of houses but few able to afford them, and Kalecki makes a similar point: "increased population does not necessarily mean a higher demand for houses; for without an increase in purchasing power the result may well be the crowding of more people into existing dwelling space."[45]

On the other hand, for these very reasons, Kalecki argues that in a capitalist economy after the Great Depression, it is no longer possible for capital as a hegemonic class to oppose all countercyclical government intervention. "The necessity that 'something must be done in the slump' is agreed to"; in Beveridge's words, "[w]hatever the bearing of full employment upon industrial discipline, one thing is clear. A civilized community must find alternatives to starvation for preservation of industrial discipline and efficiency."[46] But this leaves a very big question unanswered, because in a liberal democracy, the doer of the something-that-must-bedone is at least partly subject to the masses' vicissitudes. In other words, democracy unsettles the businessperson's "confidence," because in "a democracy one does not know what the next government will be like."[47]

To Kalecki, history shows that these political conditions drive capital to push society toward the same end-of-civilization cataclysms that Keynesians expect will be associated with the rabble that capitalism cannot help but produce. The reason is that in a capitalist mode of economic organization, the uncertainties that capital anticipates will be associated with full employment—the resulting popular sovereignty, worker self-assurance, and lack of discipline—has been avoided by one means alone: fascism. Capital tends toward fascism because if under "democracy one does not know what the next government will be like," under fascism "there is no next government … One of the important functions of fascism, as typified by the Nazi system, was to remove the capitalist objections to full employment."[48] The "new order" of fascist tyranny maintains both political stability and discipline in the factories.

Indeed, Keynesians—and not just social-democratic "left-Keynesians," but also those closely associated with the "neoclassical" side of the synthesis—readily take this historical "solution" to the problem of the rabble as proof of the Truth of Keynesianism's most fundamental propositions regarding capitalism's threat to civilization. As one of the most prominent post-World War II American Keynesians, Lawrence Klein, remarked:

> [Fascism] is the form that our capitalist society will acquire unless we are successful in bringing about Keynesian reforms or a socialist economy. *If we let nature take its course*, the economic law of motion of capitalism will take us down the same road that Germany followed so recently.[49]

Which is to say, as Keynes himself said, Keynesianism is "the only practicable means of avoiding the destruction of existing economic forms in their entirety"; it is for Keynesians the *only* noncatastrophic solution to "the problem of unemployment"—a problem we can be "certain that the world will not much longer tolerate."[50]

According to Kalecki, these dynamics signal precisely the kind of categorical crisis to which Keynesians are so anxiously sensitive, a sensitivity they inherit from liberalism.[51] On this account, fascism, like socialism or communism—indeed, like revolution as such—represents the contamination or even the poisoning of the economic by the political. Unemployment, which "ought" to be a problem addressed by the technical solutions to which the properly economic is supposed to be amenable, becomes the virus that infects the whole social order, as "political pressure replaces the economic pressure of unemployment."[52]

I should be careful not to suggest that Kalecki adopts Keynes's reluctant but tragic bourgeois acceptance of this categorical leakage, as for example, is the case with Arendt or Habermas. Kalecki's own political commitments are sufficiently Left to lead him to accept not only the inevitability but the necessity of significant categorical spillover. But his attention to these dynamics is intimately tied to that part of his analysis that is informed by Keynesianism, and his prognosis for the future of a "modern community" that has recognized the risks capitalism poses to civilization is in many ways quintessentially Keynesian. Once a modern capitalist society accepts the necessity of government intervention in a slump, in the form of both public investment and the stimulation of private investment, the problem of unemployment and poverty becomes a problem which permanently "agitates and torments" them. It becomes, as it were, a fact of everyday life, part of what Kalecki calls a permanent "political business cycle":

> This state of affairs is perhaps symptomatic of the future economic regime of capitalist democracies. In the slump, either under the pressure of the masses, or even without it, public investment financed by borrowing will be undertaken to prevent large scale unemployment. But if attempts are made to apply this method in order to maintain the high level of employment reached in the subsequent boom, a strong opposition of "business leaders" is likely to be encountered … [L]asting full employment is not at all to their liking. The workers would "get out of hand" and the "captains of industry" would be anxious to "teach them a lesson."[53]

Kalecki claims this specifically modern balancing act is made possible by the "Keynesian revolution" in political economy. For it is the advances in economics and economic policy since the 1930s that allow capitalist nation-states to maintain what are, by historical standards, high levels of employment and capacity utilization.[54] This achievement also generates a political "paradox" in which capital consistently resists government intervention in "normal" times while frequently demonstrating, even willingly acknowledging, that in times of crisis that resistance will diminish or even disappear. Hence a political-economic rule becomes cemented into the very foundations of the post-World War II capitalist social order, broadly accepted by both labor and capital: that is, our pursuit of a liberal "economic bliss" depends entirely on the promise that if it comes to it, we will do everything we must, however illiberal, to "put off disaster."

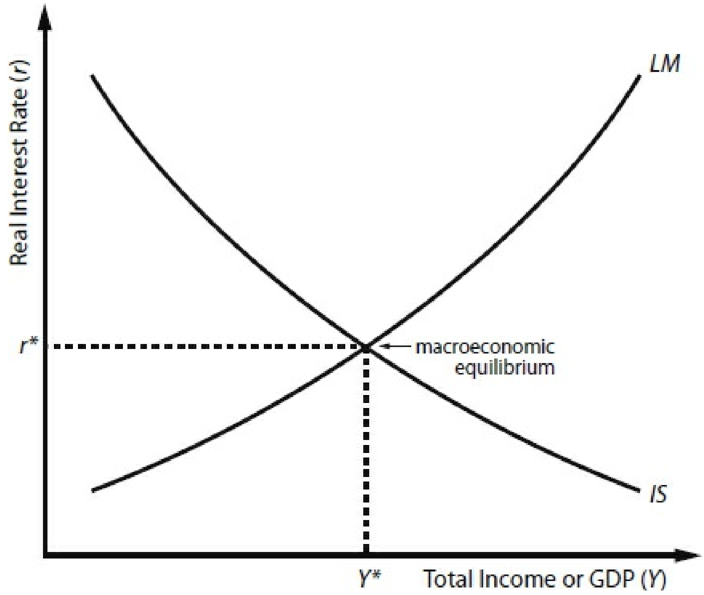
CHAPTER 13

The (New) Keynesian Economics of Equilibrium Unemployment

Kalecki's analysis of full employment leans much less on formal or "mathematical" tools than some of his other work. He was nowhere near as attached to formalism as most twentieth-century economists, but he was relatively technical compared to Keynes. The shift toward the formalization of economic analysis began before Keynes, but in his day it was still possible to contribute professionally to the discipline without the formal apparatus. In the twenty-first century, this is no longer the case and has not been for decades.

I would suggest that the most important aspects of this transformation are not primarily methodological, but epistemological and ontological. The latter are the reasons Keynes was so strongly, if a little inconsistently, opposed to the "mathematization" of economics after Jevons and Walras. The risks he associated with representing economic phenomena as variables or coefficients arose from the way in which they suggest completeness, fixity, and certainty—none of which Keynes thought described much that was meaningful in economic activity. And yet, even by his day formal techniques were the standard mode through which economists tried to come to grips with the world. Consequently, many of those who recognized *The General Theory* as an important (whether revolutionary or not) contribution tried to incorporate it into their worldview by formalizing it using the standard tools of economic analysis. This began immediately upon its publication, in the form of so-called *IS-LM*, a model of the "Keynesian system" originally proposed in 1937 by Keynes's friend John Hicks.[1] Hicks took the principal lesson of *The General Theory* to be that the key question for economists was not what determined prices in conditions of presumed full employment, but what determined quantities (the volume of employment or output, for example) if full employment was not guaranteed. If so, he argued, it was amenable to traditional equilibrium analysis, and we can reconcile Keynes's critique of classical economics with much of the classical approach; thus the article's title: "Mr Keynes and the Classics."

In the post-World War II project of Keynesian economics, there has been little that has been more influential, and more divisive, than *IS-LM*. The model—also known as the "Hicks-Hansen" framework (after Hicks and the refinements of Alvin Hansen, the greatest missionary of Keynesianism in the United States)—frames economic conditions as determined by two macroeconomic curves or "schedules."[2] Each schedule is itself determined by the set of possible equilibria in one of two key "sides" of the economy: the goods/capital market of the "real economy" (where investment demand *I* meets investment supply *S*) and the money market of "finance," where demand for money (liquidity preference) *L* meets money supply (*M*). In the 1937 article (which Keynes, somewhat notoriously, vaguely endorsed in a letter to Hicks), and in later work, Hicks posits macroeconomic equilibrium as the intersection of the *IS* and *LM* curves in the output-real interest rate plane.[3]



The *IS*-*LM* Model of Macroeconomic Equilibrium

Originally formulated by John Hicks in 1937, *IS-LM* models an economy with "Keynesian" features. The *IS* curve describes the set of points at which, across the range of real rates of interest (*r*) and aggregate income (*Y*), investment and saving are in equilibrium. The *LM* curve describes the conditions for equilibrium between the demand and supply of money. Macroeconomic equilibrium exists at the point of intersection of *IS* and *LM*, where income and the real interest rate have the values *Y** and *r**).

The key to understanding the schedules is to remember that any point along either the *IS* or *LM* curve is itself an equilibrium point in the relation between the curves' respective components (investment and saving for *IS*, and demand and supply of money for *LM*). In other words, if you imagine that you could pick either curve up off the page and turn it sideways to hold it out in front of you like a telescope, each curve would look like a string of adjacent X-shapes laid out like vertebrae along a spine. The *IS* or *LM* curves are created by a line connecting the intersections of each X. When you place the curve back on the page, all that is visible is the connecting line, which is the schedule of consecutive equilibria.

To see how this works, take the *IS* curve first. Assume, as Keynes did, that investment is a negative function of the interest rate and that savings are a positive function of income, generated *ex post* by the rising income resulting from investment. The *IS* curve describes the set of equilibria at different real rates of interest and levels of income where investment will equal saving, that is, the combinations of income and interest rate at which investment generates rising income and thus savings to meet its demand.[4] With the real rate of interest *r* on the vertical axis and income or output *Y* on the horizontal axis, the *IS* curve is thus "downward sloping": as the interest rate or cost of capital declines, investment and hence output and income increase. (Inflation would obviously complicate this relationship. Because the rate of interest in question is short-term, it is assumed to equal the nominal rate of interest. This means that inflation is zero, and not a factor.)[5]

With the *LM* curve, Hicks modeled the relation between liquidity preference (which Hicks equated with demand for cash holdings) relative to the money supply.[6] It represents the possible equilibria, for a given level of aggregate income or output, between the desire to hold cash (as opposed to less liquid assets) and the money supply as determined by monetary policy and the banking sector. Liquidity preference is assumed to be primarily a function of the main “motives” Keynes identified: “speculative” and “transactions” demand. The *LM* curve thus describes the interest rate at which the demand for and supply of money is in equilibrium for a given level of aggregate income. The *LM* curve is “upward sloping” because increasing overall economic activity will in turn stimulate both speculative and transactions demand for liquidity, and the interest rate will adjust to produce equilibrium in the money market.

The point at which the *IS* and *LM* curves intersect is supposed to mark the output and real interest rate at a short-run macroeconomic equilibrium. Although it is rarely stated explicitly, the unit of analysis is implicitly the standard Keynesian unit of the nation-state, since the output measure is usually gross domestic product (GDP) and output is taken to equal income (meaning imports must equal exports). The equilibrium is the point at which investors are happy with the current level of investment, and wealth holders are happy with the level of liquid cash holdings. The interest rate and money supply are assumed to be exogenous, substantially a function of central bank policy. The whole apparatus depends on the assumption that the price level is fixed, because if it was not, it would throw off the relationship between the nominal and real interest rates, shift the real value of output, and render the whole exercise analytically indeterminate. (Hence this approach is sometimes called “fix price.”) This is the curse of what economists call “static” analysis. *IS-LM* is also limited by its tacit assumption of a fixed state of expectations. If changed expectations only shifted one curve, then it might helpfully indicate the potential macroeconomic equilibrium in the new conditions. The *IS* curve, for example, might shift outward, meaning the point of intersection with a fixed *LM* curve would increase, indicating an increased demand for money and money supply. But in fact, if expectations change, presumably both the inducement to invest and liquidity preference would shift, making the new situation unclear, and the model much less useful for “real world” application.[7]

IS-LM is the ancient offence that set off the angry family feud in which New Keynesians and post-Keynesians (Krugman’s “Part 1ers” and “Chapter 12ers”) have so long been engaged, with the latter in particular often seeming to exist in a state of permanent outrage.[8] It would astound noneconomists to discover how much ink has been spilled arguing for and against *IS-LM* and later variations like *AS-AD* (aggregate supply-aggregate demand, designed to capture the same relation in a model that can handle changes in the price level).[9] For all the times that New Keynesians have trumpeted Keynes’s supportive note to Hicks after he read the paper (and there have been more than a few), there have been even more post-Keynesian textual analyses to show he actually thought it was completely mistaken.[10]

For New Keynesians, *IS-LM* marks the introduction of rigor to Keynes’s vague concepts and intuitive, largely nonformal theorizing. It is thus the basis of the celebrated “neoclassical synthesis,” a combination of neoclassical equilibrium analysis and the Keynesian rejection of Say’s Law, which its adherents believed represented the culmination of all previous economic knowledge. Indeed, they celebrated it as the realization of economics theory’s performative dream, a “managed economy which through skillful use of fiscal and monetary policy channeled the Keynesian forces of effective demand into behaving like a neoclassical model.”[11] Of course, if the economy could be made to operate like a neoclassical model, then neoclassical economics would be the appropriate way to analyze it. On these terms, Keynesianism experienced its own Thermidor, at least as Negri explained it: it asserts its power paradoxically, only to negate itself.

The neoclassical synthesis suggests that government enjoyed these remarkable powers of manipulation because it understands the position of both curves to be mainly a function of conventional liberal capitalist state policy: the *LM* curve shifts in and out with changes in monetary policy, and the *IS* curve shifts according to fiscal policy (tax and spending). The degree of macroeconomic control this was presumed to enable led many postwar economists to talk about "fine-tuning," as if the curves were thermostats, adjustable as deemed appropriate by the universal class piloting the enlightened state. This is the rock upon which post-World War II American Keynesianism was erected. It is the Keynesianism of a phalanx of influential US Nobel laureates like Paul Samuelson, Robert Solow, James Tobin, and Lawrence Klein, the triumphant Keynesianism that spread from the United States throughout the world; and—or so it is often claimed—the basis of the post-war "Golden Age."[12] Well into the twenty-first century, *IS-LM* remains fundamental to introductory economics education all over the globe and for many stands as the (admittedly simplified) crucible of "Keynesian economics" proper.[13]

For its detractors, however, *IS-LM* is the initial revisionist move in the counterrevolution of "irrelevant" equilibrium economics. It is mere "bastard Keynesianism," the symbol of the "betrayal" of the "economics of Keynes" by "Keynesian economics," and stands accused of undoing some of Keynes's most fundamental contributions.[14] Among other sins, it reinforces a strict separation between the real (*IS*) and financial (*LM*) sides of the economy. Despite its emphasis on liquidity preference, it drops Keynes's uncertainty in favor of determinate equilibria, an error Hyman Minsky compared to "*Hamlet* without the prince."[15] It rejects Keynes's flexible analysis of the "world in which we actually live" for a return to rigid formal abstraction. Indeed, for all intents and purposes it resurrects several elements of classical economics Keynes thought he had killed off once and for all—arguably even Say's Law.[16] A recent macroeconomics textbook, for instance, tells its undergraduate readers that Keynesians assume that in the long run, "prices and wages fully adjust to clear input and product markets."[17] This is exactly the thinking against which Keynes wrote *The General Theory*.

It would be hard to overstate the importance of *IS-LM* in the disciplinary history of economics. It would also be hard to deny what seem to me to be the irrefutable criticism post-Keynesians have leveled at it—irrefutable, that is, *if* the framework is intended to represent *The General Theory*'s arguments.[18] That is not necessarily the case today, if it ever was; presumably this is why What Keynes Really Meant matters so little to so many contemporary Keynesian economists. In any case, I would suggest it is not worth adding any more to the *IS-LM* literature than the paragraphs above already have. It is essential to any understanding of postwar Keynesianism, certainly. It crystallizes much of what postwar "Keynesian economics" was all about: the marriage of general equilibrium approaches with "disequilibrium" outcomes—where "disequilibrium" does *not* mean a permanent state of being in the world in which we actually exist, as a reader of *The General Theory* might reasonably assume, but any sub-full employment situation.[19] At the same time, however, *IS-LM* is something of a distraction, leading us down the rabbit hole of endless debates concerning, among other things, the Phillips curve (the inflation-unemployment "trade-off"), savings propensities (the "Cambridge savings equation" and the "Pasinetti inequality" between the proportion saved out of profits and that out of wages), or the compatibility of increasing returns with marginal productivity theory.[20]

It is true that as in its specific instantiation in the *IS-LM* framework, there is much in the neoclassical synthesis that is non- or even anti-Keynesian—again, *if* "Keynesian" refers to “the economics of Keynes.” But what is important here is the extent to which the Keynesian critique animates (or not) even some of the most neoclassical of “Keynesian economics.” What is important, in other words, is the generalized, and generalizable, hypersensitivity to instability and social breakdown that spans the breadth of the varieties of Keynesianism, whether they are very far from *IS-LM*, as with Kalecki, or are deeply dependent on it, like the New Keynesian model of the labor market discussed in this chapter. Instead of digging further into the technical details, then, I want to use the New Keynesians’ formal rapprochement with neoclassical ideas as a way of examining the operation of the Keynesian critique in the evolution of the extraordinarily influential “neoclassical synthesis.”

I will, therefore, skip the standard narratives of how Keynes simultaneously conquered Britain and came to America—the home of either “bastard Keynesianism” or the neoclassical synthesis, depending upon the narrator—and the rise and fall (and resurrection) of the American post-Keynesianism of John Galbraith, Hyman Minsky, and James K. Galbraith.[21] That story has been very well told.[22] Here, rather, I want to consider the relation between my account of Keynesianism and the field of orthodox New Keynesian economics that gradually gained prominence during and after the Reagan–Thatcher era.[23]

With respect to the politics of Keynesianism as a postrevolutionary critique of liberal capitalist modernity, the enthusiastic embrace of *IS-LM* does not represent a policy return to classical and neoclassical faith in the markets. Rather, it marks the post-World War II consolidation of political economy along the lines Kalecki anticipated, in the service of a “political business cycle” with a state-insured “floor” below which emergency measures are activated. In other words, even when the “Keynesian–Fordist” Golden Age of the 1950s and 1960s unraveled, the response of nominally Keynesian economics should not be taken as proof—as it so often is—that the Keynesian critique had necessarily been blunted, shouted down, or forgotten and all the Keynesians forced to “go orthodox.”

On the contrary, the Keynesian political economy of the post-Keynesian era was founded on the ultimate Keynesian dictum—that at a precipice, we must return to the question of necessity to “put off disaster” in the interests of civilization—which had become common sense. The pairing of punitive austerity and drunkenly accelerated affluence and inequality that has unfolded since the neoliberal victory over the “inflationary” welfare state may have produced a New Gilded Age, but the political economic foundations of its legitimation are *not* merely a repeat of the classical economics that abetted the first Gilded Age.[24] The state reaction to the financial mayhem that followed 2008 was vastly different than the initial response to the Depression of the 1930s. Radically so. The key distinction between the Golden Age and the neoliberal era that followed the supposed death of Keynesianism was not a renunciation of the dictum in favor of permanent austerity, but a change in the ideological location of the precipice. What changed was what is considered to constitute a legitimate “disaster.” Remember that the infamous Volcker shock is named after a Keynesian: there is no reason Keynesianism cannot be austere at times—it is a question of legitimacy, a level of suffering the sufferers can sustainably accept.[25]

Stiglitz-Shapiro on “Equilibrium Unemployment”

Both Joseph Stiglitz and Carl Shapiro number among the many recent White House Keynesians, and their collaboration gives us a very useful window on the politics of New Keynesian economics. In the mid-1980s (that is, after the monetarist “counter-revolution” pronounced the death of Keynes), Shapiro and Stiglitz published a paper entitled

"Equilibrium Unemployment as a Worker-Discipline Device." It had an immediate impact on the thinking of economists and policy-makers on labor markets and unemployment in industrialized capitalism, and the Shapiro–Stiglitz model is now a standard component of economics education, at least in its hegemonic orthodox form.[26]

The Shapiro–Stiglitz account was formulated at the height of the Reagan–Thatcher crusade against organized labor and inflation—framed as the same war on two fronts, because among its other sins, the former supposedly caused the latter—with US unemployment rates higher than at any time since Keynes wrote *The General Theory*. It is in some ways an inverted or mirror image of Kalecki's "Political Aspects of Full Employment" in both its historical context and its reasoning (on Kalecki, see Chapter 12). At perhaps the first moment in capitalist history when workers might reasonably expect a full employment program, Kalecki argues that unemployment is a political product of capitalist opposition to such a program. In contrast, at what was undoubtedly the lowest point in the fortunes of workers and unions in much of post–World War II Euro-America (at least up until that time), Shapiro–Stiglitz come to a similar conclusion regarding the disciplinary role of unemployment but attribute persistent nontrivial positive rates of unemployment to employers' "rational" but uncoordinated decision-making in light of uncertainty. In their model, unemployment emerges endogenously, as an unintentional and apolitical force that nonetheless keeps workers in order.

Shapiro and Stiglitz are studiously faithful to liberal social science orthodoxy. For example, despite shockingly obvious and intimate connections (of which it is literally impossible they are unaware), neither Marx's reserve army nor Kalecki's seminal work is even mentioned. Closely related contemporaneous work by technically sophisticated but "heterodox" economists like Stephen Marglin is also (and, it must be assumed, purposefully) ignored.[27] The model is, however, almost a bald-faced acknowledgement of "Kaleckian reactions" to politically empowering levels of employment, but it explains them as a "natural" product of employers' rational decisions, as opposed to the exercise of bosses' power or class conflict.[28] In other words, it presents a depoliticized account of destabilizing class politics—arguably a very Keynesian thing to do.

Indeed, one of the more interesting aspects of New Keynesian economics is that it depoliticizes Keynesianism in an effort to disavow its status as political economy. It is desperate to become merely "economics" in a strict sense, rejecting the renewal of political economy that earlier economists like Joan Robinson had celebrated. In that sense, it merely accepts Keynes's macro-empirics—markets do not clear, full employment is not inevitable, the nominal can affect the real, and things can very easily go from bad to worse—but justifies this acceptance with the same claims about human nature and collective well-being that found the classical and neoclassical schools. This is merely another way of performing the separation of politics and the economy, which is always based, as Keynes at least knew, on a kind of tacitly agreed-upon liberal mythology—because everyone knows, of course, there is no modern "economics" that is not always also political economy. Yet New Keynesian economics brings a distinctive twist to the Keynesian critique, because it often poses as merely a "disequilibrium" variation on a Walrasian theme. It assumes the posture of complete agnosticism concerning the liberal politics that founds it (a quality it shares with other neoclassical schools of thought), but it is nonetheless caught up entirely in the nervous legitimation of the social order. One would never describe orthodox royalty like Milton Friedman or Robert Lucas as involved in a nervous legitimation of the social order; they are caught up in an indignant denunciation of anyone who thinks the social order is not "natural," so its legitimacy never crosses their minds.

In this and several other dimensions, Shapiro–Stiglitz is an almost perfect example of the modern New Keynesian approach, deriving so-called "Keynesian" results from neoclassical "microfoundations." It is also suffused with the same attitude to the working class that saturates modern economic analysis: since political economy is by definition an elite knowledge and practice, workers are always "them." The workers Shapiro–Stiglitz have in mind—like Keynes and Kalecki—have, in modern economic terminology, "lower job-switching costs": they are employed "in lower paid, lower skilled, blue-collar occupations" in which they must always be cajoled or harried to perform work that is purely a disutility.[29] Presumably this is not the case for (political) economists themselves, who are exempt from the pressures associated with workers' "work"—they don't need to be supervised, and they do not need to be disciplined in the same way. Workers, on the other hand, are presumed to be motivated by simple utilitarian pain–pleasure stimuli. They "dislike putting forth effort but enjoy consuming goods"; they are all opportunistic, selfish, and lazy.[30] When they do not act according to this rational "psychology," they are said to have (at best) "predictably irrational" or even "mistaken" utility curves.[31]

We must remember that this is how Keynes and Kalecki talk about workers as well. Neither of them proposes a more robust or socially complex conception of workers' interests—in both cases rational selfish ends, as conceived by orthodox economics, drives the models and theories.[32] Like Shapiro–Stiglitz, for Keynes and Kalecki there is no utility in labor outside its pecuniary reward; it is categorically a "disutility." *The General Theory* rejects the second classical postulate (the equality of the utility of wages and the marginal disutility of employment) not because the kind of work workers do might be something other than a pure disutility, but because the equality it asserts does not in fact hold—labor is certainly always a disutility, just not necessarily to a degree that equals the utility of the wage. Kalecki, while certainly sensitive to the class dynamics of the struggle for full employment, and thus to the political causes of unemployment, was still more a Keynesian than a Marxist. Although operationalized in the "political" sphere, his theory of unemployment is just as mechanical an outcome of capitalist civil society as it is for Hegel, Keynes, and Shapiro–Stiglitz. Because the New Keynesians come to this conclusion in a different manner, then, it is worth looking at their analysis in a little detail, for there are some crucial dynamics that might be missed by a superficial scan.

"Microfoundations" for Keynesian Macroeconomics: The Economics of Information

The Shapiro–Stiglitz argument is built on the conceptual infrastructure of the "economics of information," a subfield to which Stiglitz is a key contributor. An extension of a long tradition in institutional economics, the economics of information studies the effects of stocks and flows of information on market prices, institutional structures, regulatory design, and so forth.[33] It characterizes exchange as a contractual relation between "principals" and "agents" to exchange goods, services, information, or money. Principal-agent relations are commonly subject to so-called "information asymmetry," which engenders ubiquitous problems for principals, because in general they pay money—the quality and accepted value of which is virtually guaranteed—to agents for assets the quality and value or even delivery of which is much less certain. In other words, without direct supervision, the "agent" (the employee, for example) enjoys an information advantage over the "principal" (the employer, say). The work of Stiglitz (and others) argues that asymmetrical information virtually always impinges upon market relations: the employee, for example, has better information about the quality of production work than the employer; the borrower knows more about his or her capacity to repay than the lender; the firm knows more about its own behavior than the regulator.

If this is so (it does seem a reasonable description of capitalist markets), then in an economic theory in which agency is assumed to be rational in the optimizing, *homo economicus* sense, actors can be expected to do their "boundedly-rational," budget-constrained best to overcome these information problems—or "information impactedness," as Oliver Williamson unfortunately labeled it—so as to be able to make informed decisions.[34] As economists understand it, information asymmetry explains a lot of otherwise inexplicably costly "irrational" and "inefficient" behavior on the part of principals and agents: it is the reason tenants are willing to pay damage deposits to their landlords, prospective employers ask job applicants for references, and regulators "stress-test" banks' capital cushions. It is the reason consumers do business with firms certified as "fair-trade" or "green" and potential investors examine a company's books. Contracts, especially those pertaining to complex exchange and regulatory relations, are of particular interest to information economists, because principals will attempt to structure contracts so as to overcome information asymmetry as much as possible: so-called "incomplete" contracting, the increasingly elaborate, conditional, and contingent character of the contracts that underwrite the global economy, has become a subspecialty all its own.[35]

Information economics suggests that information problems are a significant source of "Keynesian" rigidities and "stickiness" in the existing economy. For example, contracts fix wages and prices that "should" be flexible, or bind counterparties in ways that prevent them from seeking the lowest cost alternative for the duration of the contract. Alternatively, the long-term nature of many credit or supply relationships means that the expectation of future exchanges will lead to discriminatory (non-Walrasian) pricing. In other words, if the expected benefits derived from costs associated with reducing information problems outweigh the expected costs of ignorance, the principal will often be willing to pay what orthodox economists would consider above-market or inefficient prices. This will produce "Keynesian" outcomes by definition: sub-full resource employment in nonclearing markets.

There are three paradigmatic information problems for the discipline of economics: insurance, regulation, and the worker–employer relation.[36] The goal of Shapiro–Stiglitz's New Keynesian model is to inquire into the effects of the last on aggregate unemployment. Principal-agent problems are understood to be inherent to the wage relation and capitalist labor markets. If one assumes—like Keynes, Kalecki, and even radical political economy usually do—that workers' labor is a pure disutility for which the wage is compensation, then one will reasonably assume that if there is no penalty for "shirking," every worker will shirk as much and as often as he or she can.[37] By this reasoning, depending upon bosses' judgments of the costs of monitoring and ensuring worker effort relative to the costs of shirking, employers will undertake to "observe" or "monitor" the workforce. This has a dual benefit for the boss: first, it gives the firm better information regarding workers' individual and collective performance; second, if workers are aware of the monitoring system, they can be expected, like those in Bentham's panopticon, to "behave" for fear of being identified as shirkers and paying the price. This, for example, would be an economist's explanation for the devices in fast-food restaurants that count off and record, in plain view, the seconds between customers' orders and service. The neo-Taylorist stopwatch is designed to ensure that employers have both disciplined employees and accurate data on work speeds.

These measures obviously assume there is a penalty to being caught shirking, which in political economy is always understood to involve a reduction in income: lower wages, fines, or—worst of all—"the sack." This was the basis of Kalecki's argument: if the labor market is sufficiently "tight," that is, near enough to full employment conditions, then workers are unlikely to fear being fired, since other jobs are readily available. According to Kalecki, capital's opposition to Keynesian full-employment policies is due, therefore, to the fact that they might actually work, and if they did, the hierarchy implicit in the wage relation would be entirely upended. For capital, job scarcity is absolutely essential to the institutional function of capitalist labor markets and production processes. They *require* some level of involuntary unemployment (even if the unemployed are then disingenuously blamed for their joblessness).

Shapiro–Stiglitz come at the problem from a different direction—from inside the labor market, as it were—to identify the ways in which classical and neoclassical behavior in "real" markets produces Keynesian outcomes. They claim to explain the "incentive role of unemployment."[38] Rather than positing a short-run politically determined structural equilibrium unemployment level, à la Kalecki, they argue that the problem lies in what might be called a microeconomic Kaleckian dynamic immanent to agents' rational behavior: in conditions of full employment, workers will always choose to shirk.[39] Consequently, "the inability of employers to costlessly observe workers' on-the-job effort" leads to a situation in which the "equilibrium unemployment rate must be sufficiently large that it pays workers to work rather than to take the risk of being caught shirking."[40] This disciplinary "equilibrium" rate of unemployment is deemed "natural." In other words, it is endogenous to the labor market; state intervention in the form of unemployment benefits only exacerbates the problem, since it increases the wages with which employers must compete to overcome the incentive to shirk. They are forced, therefore, to pay "unnatural," higher-than-equilibrium wages. According to classical and neoclassical theories, the prevalence of these "efficiency wages" prevents the labor market from clearing, which is to say it prevents Say's Law from operating when it "ought" to come to the rescue by lowering wages until everyone who wants a job is employed.

Thus, on one level, Shapiro–Stiglitz merely reinforce liberal free-market common sense. It would seem that all would be well in a Walrasian world if only information asymmetry did not generate a "rational" choice to pay wage "premia" (nonequilibrium wages). Here we have a "market imperfection": microeconomically properly behaved classical and neoclassical actors producing improper macro outcomes. This is exactly what economists mean when they talk about providing "microfoundations": trying to find a way to show how rational self-interested optimizing behavior can produce inefficient markets. Shapiro–Stiglitz are, however, very careful to distance themselves from advocates of *laissez-faire* who would, presumably, insist that barring unwarranted distortions like workers' unreliability or moral turpitude, these problems would not arise. Instead, here unemployment is decidedly involuntary and "not of the standard search-theory type." In other words, in accordance with Keynes's definition of involuntary unemployment, Shapiro–Stiglitz assume there are no vacancies and that workers would be willing to work at less than market wages. If so, the market equilibrium produced by the model is not Pareto optimal, the standard gauge of free-market economic efficiency. There are "interventions in the market that would make everyone better off"; indeed, it is even possible that under certain circumstances wage subsidies are "desirable."[41]

Regardless of the route by which it is reached, this is a very Keynesian conclusion. Even when they have the capacity to enjoy full employment, modern communities must socially produce sufficient scarcity to make yield possible—in this case, to keep wages low enough, and productivity high enough, to generate profits.[42] If, relative to Kalecki's model, capital in this account does not play the bad-guy role and employers' self-interest expresses itself through more strictly "atomistic" rational behavior, the fundamental parallels between the two approaches to unemployment are not diminished. In both cases, classes and individuals are expected to behave in a manner consistent with their assumed self-interest, and in both cases the outcome is nontrivial: sustained or permanent involuntary unemployment, that is, suboptimal outcomes in the labor market caused by a scarcity ("job rationing") that is nothing if not immanent to the modern economy.

Shirking Workers and the "Natural" Rate of Unemployment

To see how this works with Shapiro–Stiglitz, let's take a brief look at the model itself. Following Keynes by taking wages as a given—workers are "price-takers," unable to influence their wage—they assume the only choice a worker makes is effort level, selected to maximize his or her discounted utility stream. A "no-shirking condition" (NSC) exists at the wage level at which the "expected lifetime utility" of shirking is less than that for not shirking. Clearly, a Kaleckian world in which workers have no fear of the sack is a world in which a no-shirking condition cannot hold.[43] But—and in this they put the emphasis on the *neoclassical* in the neoclassical synthesis—Stiglitz–Shapiro accept a variation on Milton Friedman's permanent income hypothesis in their focus on the long-run calculus implicit in the expected *lifetime* utility of shirking or not shirking. Workers in the model make decisions in the present in light of their expected income across their entire lives. Which is to say, just as many said of *IS-LM*, uncertainty is dismissed by fiat. Decisions in the present reflect a calculated, rational life plan regarding employment and "leisure," income and utility.[44]

Many will read this and have a justifiable urge to take this assumption as further proof of how "unrealistic" mainstream economics is. It is worth withholding that judgment, however, to step back from this or that assumption and look at the whole. If we accept this framing for a moment, then there will be a "critical wage," a threshold level of compensation at which workers will not shirk. The critical wage will be a positive function of required effort, the expected utility of unemployment, the rate of interest (because short-run gains from shirking are more heavily weighted), and the quit rate (because if you are quitting anyway, you will be more likely to shirk); it will be a negative function of the probability of being caught shirking. Obviously, taking the rest at face value, a high likelihood that shirking will be observed reduces the need to pay higher "efficiency" wages. Shirking is thus ultimately a negative function of the wage—other things can determine its level, but the higher the wage, the less the shirking.[45]

Similarly, the natural or equilibrium rate of unemployment is a positive function of the critical wage threshold. Wages will be relatively higher under the following conditions: there are high turnover rates (workers do not expect to be at the job for long); workers have high discount rates (they value shirking now more than they fear future penalties); there are more possibilities for workers to opportunistically limit their effort (performance is difficult to observe); or there are high costs to the employer associated with shirking (goods are perishable, say, or equipment is very fragile or expensive to operate). The higher the critical wage, say Shapiro–Stiglitz, the higher will be equilibrium unemployment:

> If wages are very high, workers will value their jobs for two reasons: (a) the high wages themselves and (b) the correspondingly low level of employment (due to low demand for labour at high wages), which implies long spells of

> unemployment in the event of losing one's job. In such a situation employers will find they can reduce wages without tempting workers to shirk. Conversely, if the wage is quite low, workers will be tempted to shirk for two reasons: (a) low wages imply that working is only moderately preferred to unemployment, and (b) high employment levels (at low wages there is a large demand for labor) imply unemployment spells due to being fired will be brief. In such a situation, firms will raise their wages to satisfy the NSC.[46]

In conditions of Kaleckian full employment, no critical wage could be set high enough to reach the threshold. Which means, *"no shirking is inconsistent with full employment*."[47] If we assume that no firm enjoys market power to set the wage, then all firms have to offer the critical wage at a minimum, and labor market equilibrium will be determined by the intersection of aggregate labor demand with the aggregate no-shirking condition—not with the "natural" labor supply curve.

Which is to say that the aggregate NSC is an "effective" labor supply schedule, precisely the purpose of *The General Theory*'s "employment function."[48] The employment function describes the volume of employment corresponding to a given level of expected effective demand. The NSC is the level of the wage and employment at which firms can realize their labor demand with nonshirking workers. Aside from their technical-functional similarities in the economic theory of the labor market, there are therefore crucial overlaps in the politics that underwrite the labor supply claims of *The General Theory* and Shapiro–Stiglitz. To begin, both maintain the classical and neoclassical assumption of a passive workforce that reacts mechanically to capital's requirements; because workers drop in or out of the labor market in response to the wages on offer, the aggregate labor supply curve is a schedule determined, somewhat paradoxically, not by workers but by capital. The biggest difference is perhaps that for Shapiro–Stiglitz, as for Kalecki, its character is determined by capital according to workers' characteristics *qua* factor of production. This is characteristic of New Keynesian analysis, which builds from mainstream "microfoundations," and, because it sees the world from the perspective of capital, understands labor solely as a cost, and not as a potential consumer. For Keynes, because he operates without regard to firm-level (microeconomic) decisions, the NSC is determined in a more Weberian light, with regard to workers' (aggregate) characteristics *qua* consumers.[49]

The NSC also describes very Keynesian dynamics in that it imposes a wage level on the economy that workers cannot change, even if they wished to (see Chapter 10). So when demand for labor is reduced (because the critical wage is too high or rises), the NSC means "wages cannot fall enough to compensate for the decreased labor demand."[50] As Keynes says, labor can refuse to work for a wage less than the marginal disutility of labor, but it cannot demand to work for the wage that is associated with a particular level of employment (in other words, it cannot demand a wage that is no greater than the marginal disutility of employment and thereby guarantee full employment in a classical world).[51] Real wages can only get reduced gradually—likely by inflation. This determines an "unemployment equilibrium," because from "the firm's point of view, there is no point in raising wages, since workers are providing effort and the firm can get all the labor it wants" at the going wage. "Lowering wages, on the other hand, would induce shirking and be a losing idea. From the worker's point of view, *unemployment is involuntary*"—and from Keynes's point of view too: the unemployed would gladly work at the going rate or lower "but cannot make a credible promise not to shirk at such wages."[52]

The Shapiro–Stiglitz framework thus effectively "naturalizes" or "rationalizes" unemployment, given the behavior of workers and the reactions of firms thereto. The very nature of work as pure disutility (in capitalism, we should add, even if Keynes and Shapiro–

Stiglitz would not think to) "naturally" elicits behavior (shirking) that "rationally" generates unemployment. Keynes agrees (as does Hegel, hence the role of the *Korporation* in overcoming this emptiness and returning honor to the laborer). Indeed, nowhere does *The General Theory* suggest that workers are not a fundamental cause of unemployment—the proposition that high rates of employment require a slow, even hidden, ratcheting downward of real wages is all the proof we need of his tacit position. Instead, the difference between all these varieties of Keynesianism on one side, and liberal orthodoxy on the other, is that while both accept that workers are the *cause* of their own unemployment, Keynesians argue that they are not *responsible* for it.

This is because both the NSC and Keynes's employment function are intended as more "realistic" substitutes for the orthodox labor supply curve—and, to risk stating the obvious, "labor supply" is economics' catch-all description of workers' labor market behavior given the political and material conditions of life, cultural norms and constraints and expectations, and so forth. The Stiglitz–Shapiro model reduces (however reluctantly) all of these factors to one—the disutility-income trade-off. But in the world in which we actually live, even this single "rational" trade-off (the tipping point of which is marked by the "critical wage") is a function of *Sittlichkeit*: life as it is lived in a real place and time, bound up in the interplay of stasis and change.[53] In other words, as Keynes, in his own way, makes as abundantly clear as Hegel, the necessarily abstracted activity of the individual worker-shirker in liberal capitalist civil society, shorn as it is of *Sitten*, leads inexorably to a positive aggregate level of involuntary unemployment. In this upside-down but very real world, the worker is a product of the model; the subject becomes predicate, the predicate becomes subject.

In contrast, for the mainstream market-clearing school, workers are both the *cause of* and *responsible for* their unemployment. They produce their own employment conditions, since in aggregate, unemployment results from individuals' decisions to remain unemployed because their so-called "reserve wage" is too high, insofar as the minimum compensation they will accept for the disutility of work is unreasonable. The constraints on the economy in both the Keynesian and mainstream analyses are worker imposed, but for Keynesians they are imposed involuntarily, even though it is workers' own fault. Consequently, even though it is "natural," the "*'natural' unemployment rate is too high*."[54]

The corollary of this reasoning, it would seem, is that if firms could monitor costlessly and perfectly, we would overcome perhaps the principal force behind modern unemployment. This would also suggest (as Kalecki would lead us to believe) that the greater workers' autonomy in the workplace, the higher the rate of unemployment. Better monitoring would help workers (presumably as a class) by lowering the critical wage and improving labor market participation. By this logic, if all firms were McDonald's, there would be a lot more jobs. If there were no unemployment benefits, perfect and costless monitoring, significant penalties associated with job loss, and no discounting of the future on workers' part, then unemployment would fall as the critical wage diminished to the level (which Shapiro–Stiglitz designate e) at which the second classical postulate is satisfied, "the utility of the wages when a given volume of labor is employed is equal to the marginal disutility of that amount of employment."[55] Keynes, we know, rejected the second postulate because, he said, the social dynamics of modern liberal civil society prevent it from being realized. Shapiro–Stiglitz echo this judgment, if for different reasons.

It might seem that Shapiro–Stiglitz are proving Keynesians' libertarian trolls correct, in that Keynesian policies imply some degree of state authoritarianism, in this case the productivity and employment benefits of Big Brother-like surveillance. They are not. Instead, they consider the changes in the model's conclusions given different distributional regimes. They point out that if workers and owners were the same people, then Pareto optimality would demand the removal of all unemployment benefits, and the taxation of profits to subsidize wages; all income would take the wage form, and there would be a de facto tax on being unemployed.

But in contemporary capitalism workers and owners are almost never the same people. This means that the current distributional and property relations lead to the fundamental Keynesian conclusion: barring a fascist or authoritarian arrangement, capitalism must have unemployment. It must be (in Keynes's words) sufficiently and consistently impoverishing: "by reducing employment, workers are induced not to shirk. This enables society to save resources on monitoring (supervision)." In modern societies, "these gains more than offset the losses from the reduced employment."[56]

This is not to say that there are no important differences between this analysis and that of Keynes himself. The very fact that a "simplified general-equilibrium model" underwrites Shapiro–Stiglitz is reminder enough. Chief among these differences, perhaps, is the implicit acceptance of the microeconomic utilitarian or "welfare" foundations of orthodox economics, which posit "society" as a collective that benefits from aggregate income increases in a way that totally ignores internal inequalities. Even with the minor constraint provided by Pareto optimality, this assessment of social welfare is indefensible on Keynesian terms, and Keynes himself always railed against its "Benthamite calculus."[57] It celebrates unreservedly what Losurdo calls the "passive citizenship" of the masses that enables liberalism's privileged "community of the free": if their unemployment "enables society to save resources" that "more than offset [their] losses," then workers contribute to aggregate social welfare but are excluded from the "community" that enjoys it. So workers, figuratively incorporated into society for the purposes of justifying its generosity, individually and as a class pay the price of their de facto exclusion. These are the welfare implications of "the incentive role of unemployment," at least for everyone but the unemployed themselves.[58]

This would seem to be a perfect example of the "travesty" of which *IS-LM* stands accused by post-Keynesians: arriving at nominally "Keynesian" conclusions through a tautological mixture of classical means and assumed "rigidities," so that "the distinctive and revolutionary features of Keynesian theory vanish and dissolve into thin air."[59] The problem, as Shapiro–Stiglitz formulate it, does not begin as Keynes argued, that is, from the fact that Say's Law does not hold, and thus investment does not provide an economic context in which full employment is possible. The problem as they see it, rather, is in the microeconomics of the labor contract: "firms are assumed (quite reasonably, in our view) not to be able to monitor the activities of their employees costlessly and perfectly."[60] The logical conclusion would seem to be that increasing what we might call the effective rate of exploitation would reduce unemployment. This sounds an awful lot like what a very strict "neoclassical" or orthodox economics would "discover."

And yet, let us think through this apparent irreconcilability for a moment. If we grant Shapiro–Stiglitz their argument, then the driver of unemployment is not a lack of coordinated capitalist investment and proper management of the "fetish of liquidity." The problem is the power relations of the workplace: despite themselves, workers are simultaneously *too* powerful and not powerful enough. The very fact that they always enjoy some capacity to shirk means that even if they *never would* shirk, they cannot organize their labor supply individually or as a class so as to clear the labor market and realize full employment. They are the *cause* of, but not *responsible* for, their unemployment. Consequently, while the state is nowhere invoked explicitly—as is true of much of New Keynesian economics—there is a spectral Arrovian collective "social choice" agent that underwrites the argument, an agent that has the capacity to do more than make things worse by legislating mandatory minimum unemployment benefits and raising the "critical wage." Because the (Pareto) "optimality" of the equilibrium "depends upon the distribution of wealth," the "standard separation between efficiency and income distribution does not carry over to this model."[61] It does not necessarily all work out in the end. The state—or something a lot like it, acting in the "social interest"—has a key role to play.

The main way in which it can play that role is through the "unemployment mechanism"—ensuring adequate unemployment, which is not necessarily a non-Keynesian conclusion.[62] As Shapiro–Stiglitz put it, if "it is costly to monitor individuals, competitive equilibrium will be characterized by unemployment," *but* the resulting "'*natural' unemployment rate is too high*."[63] Which is to say—against the mainstream account—that the so-called "natural" rate of unemployment enjoys no legitimacy just because it is "natural." There is therefore a role for the agent of social welfare, the state, the sole agent that can coordinate the organization of legitimation ensuring a sustainable level of suffering and thus the sustainability of the social order. Moreover, the very idea that because liberal capitalism is *always* characterized by unemployment, political economy's main task is to determine whether the level of unemployment is unjustifiable ("too high"), exposes the politics-economy separation naturalized by liberalism as the social artifact it always is.

These are characteristics of the Keynesian critique of poverty and unemployment we can trace back two centuries. The "optimality" of the social arrangement and the standards by which it might be assessed are crucial here. We might legitimately question the Keynesian-ness of a diagnosis that suggests that the state's role is merely to achieve allocative Pareto efficiency under conditions in which nature does not produce it on its own. If Stiglitz–Shapiro take Pareto optimality as legitimate by definition, then the Keynesian critique of liberal common sense is arguably pretty trivial.

But they do not. Allocative efficiency is not self-justifying. Nor, I would argue, do they ultimately posit "optimality" as merely a problem of allocation alone. What is at issue here is in fact the concern at the core of Keynesianism and political economy as such: in any given "modern community," what is the appropriate organization of legitimation? Nature be damned; what liberal governmentality must determine is the acceptable level of unemployment, poverty, and inequality and how that level can be made acceptable. Or, alternatively, what state responses can justify an otherwise unjustifiable level of unemployment? How to ensure that the jobless live willingly with their joblessness?

These questions are merely muted twentieth-century variations of those the bourgeois members of the Convention were forced to ask themselves when confronted with Robespierre's demand for an honorable poverty: "Are we not witness," he asked, to conditions in which "those who have been provided with immense wealth are themselves a product of needs as great as their riches, in which their luxury and prodigality has created *poverty in the midst of plenty* [*rendu pauvres au sein de l'abondance*]?"[64] Shapiro and Stiglitz can only diagnose the problem and suggest some administrative medicine; they can neither answer these questions—political economy never can—nor can they avoid them, for ultimately, in Hegel's "modern society" or Keynes's "modern community," these questions are all that really matter.

CHAPTER 14

From Unemployment to Inequality in the Twenty-First Century

When Shapiro and Stiglitz's paper appeared in 1984, official unemployment hovered around 7.5 percent in the United States, 12 percent in the United Kingdom, just over 8.5 percent in France and Germany, and 11.5 percent in Canada. Three decades later, the situation was almost as bad: just over 7 percent in the United States and the United Kingdom, 10 percent in France, 7 percent in Germany, and 7 percent in Canada.[1] There had been a great deal of up-and-down in the meantime, but the problem of joblessness had clearly not diminished. And yet, while in 1984 unemployment was the main discursive category through which the experience of poverty was discussed in the affluent industrial nations of western Europe and North America, thirty years later things had changed. Unemployment certainly remains a key concern, but with the financial crisis following 2008, the mainstream object of political economic critique has shifted from unemployment to "inequality"—just as we can now see retrospectively that by Keynes's day unemployment had replaced poverty as the problem of the poor.

The reasons for this discursive transformation are not straightforward and merit their own detailed investigation. Surely it has several related causes: the fallout of the crisis and the public exposure of finance capital's predations; the extraordinary acceleration of income and wealth inequality across liberal democracies; the awakened popular awareness of a global super-elite that live in unimagined luxury alongside the relative stagnation and even decline of real wages and incomes for most people.

But a cynic might suggest that many of these problems existed in almost as dire a state for many years prior, even as far back as 1984. The hegemony of "inequality," that cynic might say, is not due to a different understanding of the experience of poverty—especially absolute poverty—but is, rather, a product of the fact that these more recent developments have opened up a gap in the upper half of the income distribution. The poor, whether working or unemployed, remain poor in the sense that they do not have enough to live secure, dignified, healthy, joyful lives in a "modern community." But the top decile is now increasingly better off (at least in the material sense) than the second, third, and fourth, and the top percentile or one-tenth of a percentile is now absurdly rich compared to everyone else in the world. If this is in fact a driver of the categorical shift, then it is an ideological product of the very supercapitalist dynamics it condemns: "inequality" is the poverty of the bourgeoisie, the "deprivation and want" of the wealthy.

Without diminishing the actuality (in Hegel's sense) of the problem of inequality, I would suggest that the cynic is on to something, and an equally cynical assessment of the degree to which "inequality" has become a *cause célèbre*, especially among Keynesians, would confirm it. From popular films like *Inside Job* and Robert Reich's *Inequality for All* to bestsellers like *The Spirit Level* and Stiglitz's *The Price of Inequality*, inequality is the talk of the town among governing elites and the "universal class."[2] If Hegel or Keynes were alive today, both would be paying a great deal of attention.[3]

This is the breach into which Thomas Piketty stepped in 2013 with *Capital in the Twenty-First Century* (translated into English in 2014). While widely read in the original in France, the English edition precipitated a sensation for which there is literally no comparison, at least not in post-World War II political economy. The book sent mainstream economists' superlative machine into overdrive: "Explosive." "Landmark." "Groundbreaking." "The book of the decade."[4] Lawrence Summers—like Stiglitz, a former Chief Economist of the World Bank—said it deserves a Nobel Prize.[5] All this for a massive (the French original is 950 pages), occasionally repetitive analysis of economic growth and inequality, chock-full of simple, virtually identically shaped, Excel charts. Yet it became nothing less than *un phénomène*, and the book and its author quickly became central to debates concerning the dynamics and trajectory of modern capitalism.

Capital in the Twenty-First Century was reviewed or discussed virtually everywhere, from newspapers, to the blogosphere, to *The New York Review of Books*. Often the comments came from influential public intellectuals—Dani Rodrik, Kenneth Rogoff, and others—and, as everyone from Slavoj Žižek to the Hoover Institution jumped in, part of the game was waiting to see what X had to say about Piketty.[6] On the political economy front, David Harvey, James Galbraith, and Paul Krugman all weighed in, as have other prominent figures in the world of mainstream economics (Brad de Long, Robert Solow, and more).[7] These engagements covered a wide political and ideological ground, and the debate was remarkably stimulating. Although some of them come from far right field, it must be said that virtually everyone had something useful to add, for there is indeed much to be said, and the book is so large, and its ambit so wide, that the conversation will likely continue.

Still, it seems to me that some crucial questions remain unasked. This is partly a function of the narrow approach taken by most responses to the book. The focus seemed stuck on largely empirical questions: whether and on what grounds the book was right or wrong; or whether the book is as right as other books; or whether Piketty's methodology, variable specification, or theoretical framework is adequate to his empirical claims or policy prescriptions. In radical and nonorthodox circles—David Harvey's and James Galbraith's reviews are exemplary—this strategy for the most part unfortunately involved holding Piketty's *Capital* up to the mirror of Marx's *Capital* and then cataloguing the ways in which, while an important read, the former misconstrues or simply falls (far) short of the latter.

I think this unfortunate, but not because these questions concerning methodological choices or theoretical framework are unimportant. On the terms with which they engage Piketty, I have little important to quibble with in Harvey's or Galbraith's assessment and much to learn. It just seems to me, however, that such critiques miss the point, that the nature of the book as a "research program" cannot be the only way we read it. Despite his market-savvy title, Piketty is not trying to rewrite Marx, or, if he harbors that desire somewhere deep down, he almost certainly anticipated, and probably cares little, that some Marxists tell him he misunderstands the tendency of the rate of profit to fall or the nature of class struggle. That is not his audience, and that is not what the book is really about. No detailed critique of his engagement with Marx and communism or his account of the failures of militant radicalism will have a meaningful impact on the crucial question Piketty's *Capital* solicits.

In fact, I would go so far as to say that to make such questions central to an engagement with Piketty is to duck the responsibility that real critique entails, because it emphasizes what are essentially minor details in the book's architecture, however mistaken it is on any given point. The crucial "critical" question is not so much "Is Piketty right about this or that?" or "Is Piketty a contemporary substitute for Marx?" The question that must be asked of the book is, instead, "What does the Piketty phenomenon tell us about contemporary liberal capitalism?" What does the extraordinary reach and reaction the book has elicited tell us about the politics and political economy of the capitalist global North? In other words, the most significant lessons we can learn from *Capital in the Twenty-First Century* would be untroubled even if his argument turned out to be totally wrong-headed and all his data fabricated in a Paris basement. Any errors and shortcomings are not entirely irrelevant, but they are beside the point.

The point, rather, is that Piketty has offered, and many have desperately embraced, *The General Theory of Employment, Interest and Money* of our epoch. Piketty's affinities with Keynes and his "groundbreaking" "landmark" of 1936 are largely unreflexive. Keynes is mentioned twice, and Piketty briefly credits one of his fundamental laws (which ties the proportional burden of capital to the saving and growth rates) to the razor's edge of the Keynes-inspired Harrod-Domar growth models, essential building blocks in the economics of growth and development.[8] Nevertheless, the Keynesian critique as I have elaborated in the preceding chapters is the foundation of Piketty's account, and it manifests itself throughout *Capital in the Twenty-First Century*. The epistemology, the political stance, the methodological commitments, and the politics resonate with *The General Theory* in imperfect but remarkable harmony. All this is no accident, since the world in which Piketty's book appeared—the world that created the book's necessity—is haunted by Robespierre's ghost and thus trembling with the liberal capitalist form of anxiety Keynes, and Hegel before him, sought to diagnose and subdue.

Keynes, Piketty and the Anxiety of Civil Society

At its most basic, Piketty's message is the same as Hegel's and Keynes's: if you are anxious about what the world is coming to right now, you are on to something. Whatever its merits, capitalism unchecked will always do two things that endanger the stability of the social order of modernity. First, it will increase inequality, a problem for which it has no "natural" or "immanent" solution. Second, it will leave a lot of people behind on both relative and absolute terms. Consequently—we do not know exactly when, but it is (always) probably soon—at some point those left behind or a significant fraction of them—Hegel's rabble—will refuse to accept their fate. *Notrecht* will assert itself, and the needs of many will cross some political economic threshold at which necessity means they have "nothing to lose" in unmaking the social order; others, dishonored, will act out of bitterness and perceived relative deprivation.

Hegel, Keynes, and Piketty in no way take this threat as presaging an incipient radical-democratic revolution, a cause for which all have some intellectual sympathy. Yet they are certain this will never happen; the masses are incapable of achieving anything so positive. The lesson history teaches them instead is that "the people" will choose destructive and demagogic means of rebuilding social order, and everyone will lose. As Piketty makes abundantly clear, he is no more worried about the promise of a socialist or communist horizon than Hegel or Keynes. The only "Marxian" dynamic on the horizon is the "Marxian apocalypse."[9] Civilization as a whole will likely go down with that ship.

In this context, attachment to abstract liberal principle (free trade, "pure" market-mediated distribution, individual meritocracy) is foolish, even apocalyptic. It does not matter a whit if according to some universal laws of Truth and Justice orthodox liberalism is formally "correct" or morally superior to other abstract principles of social organization. Maybe it is, maybe it is not; for Keynesians the question is moot if it renders the very foundations of society insecure. If liberal utopianism has any purpose at all, it is only in the long run, and "we"—those of us who feel we have something to look forward to tomorrow—know what happens in the long run. In the meantime, the only mechanisms that can secure a set of relations approximating liberalism are substantially illiberal, in and of themselves. To reject these relations on dogmatic principle is myopic, viciously destructive, and ultimately self-defeating. An unfettered liberal capitalism operating in the "freedom" of bourgeois civil society leads inexorably to its own destruction.

I should emphasize that my point is not that there is no difference between *Capital in the Twenty-First Century* and *The General Theory*, or that Piketty and Keynes propose identical theories of capitalism. They are writing for different worlds, just as Hegel and Keynes were. If only for these historical-geographical reasons, we should expect differences, and neither their theories nor their forecasts line up perfectly. For example, Piketty does not propose or anticipate anything so grandiose as "economic bliss," and, in stark contrast to Keynes, he self-consciously prioritizes empirical data analysis. (He even claims his work requires only a "minimal theoretical framework.")[10] However, there are remarkable similarities in their accounts, a product of a shared pragmatic intuitionism in epistemology and, even more important, a common theory of capitalist civil society that neither of them invented but which both are convinced is so common sense as to be irrefutable. Which is to say that if one cannot find income subsidies, Philips curves, or a "sticky-price" model in Piketty, it does nothing to diminish the fact that he has written *The General Theory* for our times.

The Keynesian Architecture of Piketty's General Theory

Keynes thought *The General Theory* identified the workings of the "delicate machine" that powered "modern communities." It solved the "paradox of poverty in the midst of plenty" through the "scarcity-theory" of capital: "capital has to be kept scarce enough" that return on its investment will be deemed acceptable by capitalists. Capital must be "kept scarce" to the point at which "we" become sufficiently impoverished so as to make profitable investment worthwhile.[11] Arguing precisely the same "stagnationist" point, Piketty puts it nicely: "Too much capital kills capital."[12]

Piketty's general line of argument has been covered elsewhere in such detail that I only offer a brief summary here, to isolate the ways in which its politics become more explicitly visible. At the outset, however, it is worth noting that the whole of his argument is couched in a pragmatic intuitionism much like Keynes's own epistemology. Piketty frequently emphasizes the applicability and accuracy of his assessments, relative to orthodox "neoclassical" conclusions, with phrases like "in practice," or "in reality."[13] He is also at pains to point out the significance of all-pervasive radical uncertainty. This uncertainty affects both our capacity to account for or anticipate the future, but it also means that the quantities on which Piketty and other economists rely are general indicators that never capture all the forces that determine economic magnitudes: "we must distrust all economic determinism on these questions: the history of the distribution of wealth is always a deeply political history, and can never be reduced to purely economic mechanisms."[14] Consequently, and despite his reliance on a vast trove of numerical data, he is as suspicious as Keynes of economics' mathematical "fetish":

> The discipline of economics has never given up its infantile passion for mathematics and purely theoretical and often ideological speculation, to the detriment of historical research and a productive conversation with other social sciences. Too often, economists are obsessed with minor mathematical problems of interest to no one but themselves, and which grant them the appearance of scientificity and allow them to avoid answering other, more complicated questions posed by the world around them.[15]

This pragmatism is of course itself a product of our historical condition. The current situation seems to demand a willingness to "break the rules" to find a solution. "Dogma" and "doctrine," liberal or otherwise, is dismissed in the interests of getting things done. But in addition to suiting the crisis moment, it also provides the foundation for a Keynesian analysis that sets aside the minor details in favor of accurately capturing the general movements of capitalist market economies. Piketty's theory of that movement—the tendential laws of *laissez-faire*—is broadly the same as Keynes's, as it too recalls the Hegelian model of a civil society containing the seeds of its own destruction in the form of poverty and rabbledom, disorder, and even "apocalypse."

According to Piketty, the force behind this self-destructive tendency is the "fundamental inequality" $r > g$, that is, the return to capital r tends to be meaningfully higher than the overall growth rate g. If this inequality holds across most times and places—the *Trente Glorieuses* (the post-World War II Golden Age in the industrial-capitalist world) stand for Piketty as the exception that proves the rule—then clearly,

> wealth originating in the past is recapitalized faster than the progress of production and incomes. Those who inherit this capital thus need only save a limited part of the income from their capital for that capital to grow faster than the economy as a whole. In these conditions, it is almost inevitable that inherited wealth dominates wealth accumulated over the course of one's life, and that the concentration of capital reaches extreme levels, levels potentially incompatible with the ideals of meritocracy and principles of social justice that underpin our modern democratic societies.[16]

As we know, Keynes attributes the forces that threaten capitalist dynamism and accelerate inequality to insufficient inducement to productive (labor-utilizing) investment. The solution, he said, was to provide secure foundations for employment-producing investment by ensuring that the interest rate r (for terms comparable to those for investment) was lower than the expected return on capital (or, more specifically the marginal efficiency of capital, *MEC*). In other words, the objective was to create conditions in which a money holder can earn higher yield funding entrepreneurship than buying debt. If this inequality is dependable, then entrepreneurs' "animal spirits" are activated, and money holders have an incentive to lend them capital.

This fundamental causal mechanism is a proto-Pikettian inequality. *The General Theory*'s explanation of capitalism's long-term crisis tendency—only very slightly simplified—is that, in general, the structural determinants of the rate of interest tend to prevent it from falling low enough, for long enough, to guarantee that the expected return to productive investment will dominate returns from debt purchase. In other words, *MEC* is volatile enough, and r resists approaching zero sufficiently strongly, that frequently, $r > MEC$.[17] Indeed, even during periods when $MEC > r$, the very fact that the relationship could so readily reverse increases uncertainty and liquidity preference, thus precipitating precisely that which was feared—a "flight to safety." Furthermore, this condition is more likely in the downturn, making bad times worse. Just as for Piketty "a global political community founded in justice and the common good" depends on a state-regulatory apparatus to ensure $g > r$, for

Keynes, “economic bliss” lies in the long-term stability of *MEC* > *r*, that is, an animal spirits’ playground[18]:

> If capitalist society rejects a more equal distribution of incomes and the forces of banking and finance succeed in maintaining the rate of interest somewhere near the figure which ruled on the average during the nineteenth century (which was, by the way, a little *lower* than the rate of interest which rules today), then a chronic tendency towards the underemployment of resources must in the end sap and destroy that form of society.[19]

Piketty’s inequality is a reworking of the Keynesian inequality for the capitalist reason of the early twenty-first century. But before considering the ways in which these inequalities resonate with one another, we must address two key differences in the dynamics they specify. These differences are formally significant, but upon closer inspection they merely obscure deeper and more fundamental similarities.[20] The first concerns r. Although it is one side of both inequalities, *r* clearly indicates something quite different in each case. Keynes’s *r* is the interest rate (or more specifically, “the complex of rates of interest for debts of different terms and risks”).[21] It “equalises the advantages of holding actual cash and a deferred claim on cash.”[22]

Piketty defines *r* as “the rate of yield on capital (which is to say the annual return on average to capital in the form of profits, dividends, interest, rents and other sources as a percentage of its value).” This is a much more vaguely defined, catch-all variable. In fact, on *The General Theory*’s terms, Piketty’s *r* is an awkward combination of both sides of Keynes’s inequality, *r* and *MEC*, something like the (weighted?) average return available to capital through all yield-producing channels. (Piketty is not a lot of help on this front.) There is no distinction between, for example, buying sovereign debt (and earning Keynes’s *r*) and investing in a new manufacturing concern (to enjoy Keynes’s *MEC*). All yields from capital assets are collected in the homogeneous mass of “return [*rendement*] to capital.”

The second difference is immediately evident in the light of the first. If *r* represents different phenomena in each inequality, then the two inequalities are not positing the same relation. Piketty’s *g* is not a substitute for Keynes’s *MEC*, and for Keynes, *g* and *MEC* are distinct. In fact, his economic bliss entails a constant fall in *MEC* toward zero but consistent per capita growth. The feasibility of this utopia aside, Keynes’s fundamental inequality cannot be easily adapted to modern growth accounting because his understanding of economic development is not captured by rising GDP. In contrast, Piketty adopts this standard measure of progress. Despite some brief nods to the fact that certain forms of development might boost aggregate income while nevertheless hindering “real” progress (for example, through increased carbon emissions or generating mass unemployment), his conception of growth is thoroughly orthodox.

Consequently, while Keynes posits that, concerning the self-destructive dynamics immanent to free-market civil society, the crucial distinction lies in what wealth holders do to extract yield (invest or buy debt), Piketty contends that this choice is not analytically important. This might seem a significant difference. Indeed it is, but it is largely a formal one, a product of changed political economic circumstances that mask a fundamental similarity in political content. To see this, we need to position Piketty’s *r* in its twenty-first century terrain. As noted above, his catch-all return to capital *r* collapses the distinction between the interest rate (yield from holding debt) and capital gains (profits, dividends, rent from landed capital, and so on). This is to suggest that when it comes to the returns to owning wealth or capital in any form, in the end it is all the same thing: yield. Enjoying the yield from owning shares in a business that produces widgets, from rents extracted from tenants, or from coupon payments on sovereign debt: in the structure and effects of the fundamental inequality that threatens capitalist civilization, these differences are basically meaningless.

This is definitively not a category neoclassical economics would endorse, because it reflects a very unorthodox conception of capital. Piketty defines capital as "the set of nonhuman assets that can be owned and exchanged on the market," because "all forms of capital always play a double role, in part as factor of production and in part as store of value." Consequently—and this goes some way toward explaining the vague generality of *r* —"*capital is not a fixed category*: it reflects the state of development and the social relations that reign in a given society."[23] Piketty is no radical, but there is wisdom here. In explicitly rejecting the marginalist fetish of "productivity"—remember that in neoclassical theory, capital's share, like that of all other factors, is determined by its marginal productivity—Piketty not only dismisses mainstream orthodoxy's fundamentalist faith in the natural justice of market-based distribution. He also resurrects for our own time Keynes's critique of "productivity."

Recall that *The General Theory* emphasizes that capitalists are capitalists not because they want to possess capital for its own sake. They seek assets that yield, and yield is what drives them. But yield is *not* a return to productivity; lots of assets are productive but generate little or no yield, and some even produce a negative stream of profit. Yield, rather, is ultimately a function of *scarcity*. Keynes substitutes scarcity for productivity in the classical and new classical theories of growth and distribution, and in doing so he simultaneously identifies the "rent seeking" at the heart of all capitalist investment and puts the problem of poverty and necessity at the center of political economy. It is almost as if where mainstream liberal economics theorizes "positivity"—a dynamically reconfigured substantial "something"—Keynesian reason conceives "negation," a quasi-cyclical persistent undoing in the process of unfolding.[24] This negation is not (or not only) Schumpeter's "creative destruction," but, rather, the immanent creation of shortage, dearth, of not-enough-to-go-around-ness.

Returning to Piketty, we can see in his embrace of a fluid definition of capital (all exchangeable nonhuman assets) an elaboration of Keynes's insight that the ultimate purpose of capital is the extraction of yield. Increasing productivity—"growth"—is related to yield solely in a contingent manner. With capital, there is no necessary relationship between the two. Thus, Piketty's *r* is a vast catch-all because it is not the standard neoclassical measure of the return associated with capital's productivity (the justifiable earnings due to its contribution to the production process), but rather a measure of the yield that capital enjoys or extracts. (Compared to the common English phrase "return to capital," which carries with it all sorts of meritocratic ideological baggage, "yield to capital" or "capital's yield" is an awkward but probably more accurate translation of Piketty's "*rendement de capital*.")

All of which is to say that for both Keynes and Piketty, the fundamental purpose of *r* is to specify *rent* (perhaps this is why it is "*r*"?)—in other words, income that "rewards the simple fact of ownership of capital, independent of any labour"—or, in Keynes's words, "what used to be called unearned income, and is now called investment income."[25] The purpose of Keynes's distinction between *MEC* and *r* is to distinguish between the entrepreneur—the hero of *The General Theory*—and the "rentier," the book's anti-hero, whose "euthanasia" is necessary to human progress.[26]

The distinction between the 1930s and today is that back in Keynes's day, the difference between "productive" and "unproductive" modes of capitalist being seemed relatively unproblematic, even common sense. Despite Hegel's most sincere hopes, the scent of aristocracy still hung in the air. But in the midst of the globalized and financialized capitalism of which Piketty writes, this difference is no longer meaningful. While he recognizes the nontrivial magnitude of income derived from "entrepreneurial labour," Piketty refuses to grant it anything more than the minor role it deserves. Capital, he says, "is always risky and entrepreneurial, especially in its early stages; and at the same time it tends always to transform itself into rent so as to accumulate without limit—this is its vocation, its logical destiny."[27] The "real economy" is increasingly financialized and securitized, the difference (if it ever existed) between "real" capital and "fictitious" capital has vanished, and the entrepreneur becomes rentier:

> The general lesson of my investigation is that the dynamic evolution of an economy based in markets and private property, left to itself, contains important internal forces that tend toward convergence, particularly those linked to the diffusion of knowledge and skills. But it also contains powerful forces that produce divergence, forces that pose potential threats to our democratic societies and the values of social justice on which they are founded. The principal destabilizing force has to do with the fact that the private rate of return on capital, r, can be significantly higher for long periods of time than the rate of growth of income and output, g. The inequality $r > g$ implies that wealth accumulated in the past grows more rapidly than output and wages. This inequality expresses a fundamental logical contradiction. The entrepreneur tends inevitably to transform him or herself into a rentier, and to dominate more and more completely those who possess nothing but their labour. Once established, capital reproduces itself, more rapidly than the growth of production. The past devours the future. The consequences for the long-term dynamics of wealth distribution are potentially terrifying … The problem does not admit of a simple solution.[28]

Hence the need for a revised r to meet the needs of a renovated, but no less anxious, Keynesian political economy. The stakes are terrifyingly high.

Regulation and the Rentier

> I see, therefore, the rentier aspect of capitalism as a transitional phase that will disappear when it has done its work. And with the disappearance of its rentier aspect much else in it besides will suffer a sea change. It will be, moreover, a great advantage of the order of events which I am advocating, that the euthanasia of the rentier, of the functionless investor, will be nothing sudden, merely a gradual but prolonged continuance of what we have seen recently in Great Britain, and will need no revolution.[29]

One of Piketty's most powerful empirical claims is that Keynes's forecast of the deaths of rent and the rentier were only temporarily correct, and have, in the longer run, been totally and completely mistaken.[30] But clearly, like Keynes, he understands the suppression of the rentier and of capital's tendency to rentification as the only "politically acceptable conclusion." Moreover, and in this he also follows Keynes, he takes the extant technical and institutional conditions of modern capitalism to be virtually fixed in the short term, or at least relatively immune to the effects of nonrevolutionary power and policy. There is little the state can do to alter g or *MEC*. Regulations that suppress r are the only feasible option.

> [W]hen Keynes wrote in 1936 of the "euthanasia of the rentier," he was just as deeply marked by what he observed going on around him: the world of the rentiers that preceded World War I was collapsing, and there was in fact no other politically acceptable solution to the ongoing budget and economic crises. In particular, Keynes knew very well that inflation, which the UK would only accept reluctantly, so strong was the attachment to the gold standard in the conservative climate before the war, was the simplest—if not necessarily the most just—way to reduce the burden of public debt and accumulated capital.[31]

Since his r is the interest rate, Keynes proposes a primarily monetary strategy to this end. This might sound like a reassertion of the *Treatise*'s "magic formula": cheap money. But with *The General Theory*, Keynes identifies the reason that mechanically lowering interest rates by *fiat* only deals with the superficial aspects of the problem. As the depths of the Great Depression demonstrated, lowering interest rates cannot guarantee a response from entrepreneurs. The deeper issue is uncertainty. If uncertainty can be subdued, then not only will interest rates fall, but entrepreneurial "animal spirits"—the urge to invest and take risks—will rise, liquidity preference will fall, consumption will increase, and effective demand will rise. From a Keynesian perspective, this is a virtuous circle.

The most expedient way to reduce uncertainty regarding the future is to introduce as much predictability as possible into capital, goods, and labor markets. If people feel like things are unlikely to oscillate, liquidity preference falls and they are more likely to put their money into market circulation. Indeed, the common medium (the "blood") of these markets is money, and for Keynes, money makes all the difference. It is the general equivalent, the store and expression of value across time and space. Money is "above all, a subtle device for linking the present to the future … we cannot even begin to discuss the effect of changing expectations on current activities except in monetary terms."[32] The highest policy priority in a monetary economy is thus to manage the link between the future and the present, so as to render it as stable as possible.

The means to this end are (a) skilled management of the rate of interest, which determines, for all intents and purposes, the terms upon which the present investment opportunities must compete with the future; (b) when necessary, state spending to maintain a stable or steadily increasing level of aggregate demand; and (c) as low inflation as is practically possible without too much disruption of the labor market, since it lowers the value of real wages, discourages investment, and can lead to vicious inflationary spirals.

Piketty's *r* demands a different approach, for which interest rate-focused policies are inadequate, particularly in a historical context, so radically different to that of Keynes, of global flows and international deregulatory competition between states. His solution targets *r* just as specifically but takes the form of a global tax on capital. It is perhaps unsurprising, if my argument holds, that although Keynes would have been unprepared for the scale of relations we now reference with the term "global," he also advocated a tax on capital at various points in his career and for the same reasons as Piketty.[33] Indeed, he too argued that if the technical or institutional challenges could be overcome (and they were "not unworkable"), it was sometimes "the best solution."[34] For both, however, the priority on regulating *r* is due to its enormous influence on future economic potential, in particular because "the inequality $r > g$ means that the past tends to devour the future."[35]

Establishing confidence in the future, in the shadow of a menacing present and increasing political economic and ecological anxiety, is about as daunting a task as one can imagine. Piketty is adamant that capitalist civil society need not lead inexorably to the Hobbesian states of nature, reactionary fascisms, or totalitarian "communist" regimes that loom on the horizon; these are only some of our possible futures. (Those futures also include an "ideal society?" briefly referenced in Table 7.2 (Piketty's question mark)—is this Keynes's "economic bliss"?)[36] But, as he says, "if the tendencies observed in the period 1970–2010 were to continue until 2050 or 2100, we will approach social, political, and economic disequilibria of such magnitude, both within and between countries, that it is hard not to think of the Ricardian apocalypse."[37]

For Piketty and Keynes, the key is somehow to save liberal capitalist civilization from the Ricardian principle both know has historically been essential to it: scarcity, the rent scarcity generates for the rentier, and—always lurking beneath the surface—the "rabble mentality" inevitable to the dishonorable mass poverty scarcity produces. Scarcity is the origin of yield, the very basis of capital as a social relation, as an asset, and as a class. Radical thinkers have emphasized this feature of capitalism for centuries. But Keynes and Piketty distinguish themselves from their fellow economists because they suggest profound if immanent means by which to acknowledge and manage this dynamic. Each of them goes out of their way to point out that they are in no way "against" inequality, no more than Hegel thought it would be possible to be "against" poverty. "Inequality," Piketty writes, "is not necessarily inherently evil"; what is crucial is "to know if it is justified, if it has sufficient reasons." In other words, the problem is not poverty or inequality, but inequalities "being so great as at present," poverty without honor.[38] Nobody should understand themselves as having nothing to lose.

For Piketty, then, like all Keynesians, the challenge is to convincingly debunk the gospel Truth that capitalist civil society, in the operations of "the market," contains the solutions to its own problems, thereby reasserting the priority of the "social interest" in whose name "democratic" institutions act. The Fordist–Keynesian state built on the foundations of "the economics of Keynes"—less social safety net, and more low long-term interest rates, capital controls, and a relatively equalizing income distribution protected by longterm contracts—in many ways achieved this to a remarkable extent.

This ideological, political, and economic entangling, through what Negri calls the postwar "planner state," realized the political economic potential of what we might call "liberalistic" capitalism to a far greater extent than classical liberalism ever did or could.[39] It did so by producing a political condition in which the state and civil society (private markets involving firms and consumers) were understood as partners in a hegemonic "social interest"—one that paradoxically provided the essentially solidaristic common sense without which the neoliberal "counter-revolution" would have had no political legitimacy. The political viability of something like the Volcker shock of the late 1970s would have been unthinkable without Keynesian ideological foundations.[40] This—which was nothing less than the Thermidorian dream of a capitalist *Sittlichkeit*—was the only political-economic common sense that could possibly legitimate a "collective" sacrifice to the war against inflation. Indeed, as a founding moment in neoliberal economic governance, we can see the Reagan era as a kind of snapshot of capitalist hegemony in "negative": working class pain is everyone's gain, even (they were told) the workers.[41]

The Keynes–Piketty proposition—that capital must "sacrifice" in the interests of the social order, in the interests of stable accumulation—is an unpalatable but pragmatic corollary of this reasoning. Keynes's and Piketty's emphasis on the "social interest" has no heritage in Rousseau: it is in fact almost a mirror image of the general will, since the collective interest is emphasized precisely because it serves individual interest. As Keynes said, "Marxists are ready to sacrifice the political liberties of individuals in order to change the existing economic order. So are Fascists and Nazis … My own aim is economic reform by the methods of political liberalism."[42] I would suggest that if (like Hegel, Keynes, and Piketty) you understand the "rabble" as a constant immanent threat to social order, and thus necessarily to individual liberty, then this makes a lot of sense. I would also suggest that if you do, you are a "real" Keynesian, even if you are a quasi-neoclassical post-World War II New Keynesian like Krugman or Paul Samuelson:

> By proper use of monetary and fiscal policies, nations today can successfully fight off the plague of mass unemployment and the plague of inflation. With reasonably stable full employment a feasible goal, the modern economist can use a "neoclassical synthesis" based on a combination of the modern [i.e. Keynesian] principles of income determination and the classical truths. Paradoxically, successful application of the principles of income determination does result in a piercing of the monetary veil masking real conditions, does dissipate the topsy-turvy clashes between the whole and the part that gave rise to countless fallacies of composition, and does finally validate the important classical truths and vanquish the paradox of abortive thrift … Our mixed economy—wars aside—has a

great future before it.[43]

Ultimately, the Keynesian problem Piketty has re-posed for liberals concerns that same essential problem that obsesses all Keynesians at all times: the political sustainability of modern ("bourgeois") privilege. The problem that Keynes struggled with, and Piketty confronts again today, is that rent and the rentier give wealth and privilege a bad name and tend constantly to produce levels of inequality for which popular "acceptance is hardly dependable or likely to last."[44] They expose the myths of meritocracy and the "bourgeois pillar." The rentier is thus nothing less than the "enemy of democracy," rent "the enemy of modern rationality."[45] This is why Keynesians are obsessed with the legitimacy of the social order, especially its inequalities. Keynes himself was particularly concerned with the persistence of levels of unemployment "so intolerably below [full employment] as to provoke revolutionary changes."[46] He attempted to address this legitimation crisis by isolating a clean, meritorious productive mode of capital from its parasitic sibling. The problem, he argued, was the residue of rentier capitalism in the modern economy, but with proper state-technocratic care, it would eradicate itself; good capital was sure to follow bad.

Piketty faces a much trickier "actually existing" capitalism, and he does so boldly, in a way that is hard not to admire at times. He recognizes that any proposed rentier/capitalist distinction is simultaneously untenable at a general level and evanescent in any given instance—profit tends to become rent, the entrepreneur becomes rentier. The categories themselves are unstable: "[a]ll wealth is partly justified and potentially excessive at the same time. Theft pure and simple is rare, as is absolute merit."[47] Without recourse to the celebration of an untainted realm of accumulation, however, Piketty faces a much more difficult task—one that, unacknowledged or unwitting, has led him to resurrect a Keynes adapted to the 21st century, in the form of a minimal tax on global capital.[48]

If Piketty cannot quite convince us that a progressive global tax on capital is in fact the "ideal institution for avoiding an endless spiral of inequality and retaking control of current dynamics," he does show that it is "not nothing" either (*ce n'est pas rien*, a phrase Piketty uses often). But the reason it would help is not, he says (correctly), because it will improve the situation for low-income groups. The tax is not intended to—and might have limited impact upon—the state's social spending or on the distributional concerns of the poor. But the point, again, is not to make the poor no longer poor. The "principal function of the tax on capital is not to finance the welfare state [*l'État social*], but to regulate capitalism" and to provide a veritable "global financial cadaster" to improve our capacity to regulate banking and finance through a vastly increased transparency.[49]

The conservative response to this proposal has been as stupid and laughably predictable as the reactions to *The General Theory* in its time: that it is "socialist," "Marxist," "double taxation," an attack on property, and so forth. The proposed tax on capital is so far from any of these it is almost funny. But neither is it a merely technical or neutral addition to the state's arsenal, so pragmatic or obviously necessary as to barely require deliberation among reasonable people, as Piketty's champions sometimes suggest. Piketty himself is enjoyably phlegmatic on the matter: "a tax is always more than just a tax: it is always a means to clarify definitions and specify categories, to produce norms, and to allow for the organization of economic activity in accord with the rule of law."[50] Such blithe reflections on the centrality of political economy to modern (bio)politics might sound like excerpts from Foucault's lectures, and indeed they expose the "liberalist" bases of Piketty's (and Keynes's) reluctantly logical critique of modern capitalism.

Echoing Keynes, Piketty is careful to endorse the abstract logic, even normative superiority, of liberalism while nonetheless exhorting us to recognize that in "the world in which we actually live" its principles cannot produce the world it anticipates. Just as Keynes suggested that with proper regulation we might produce a world in which eventually the "classical theory comes into its own again," Piketty notes, for example, that "ultimately"—in the long run, that is—"free trade and economic openness is in everyone's interest."[51] The problem is that "ultimately" we are all dead. In the meantime, we must be pragmatic, reasonable, realistic:

> It seems to me urgent that we approach this [tax] debate dispassionately, and give each argument and each fiscal policy tool the attention it is due. The capital tax is useful, even indispensable in the context of twenty-first century capital.

It is "simply" a better instrument than income tax to ensure payment of what individuals have the capacity to contribute, and it redistributes capital assets toward those who will put them to more dynamic purposes.[52]

And yet, despite these measured appeals to reason, the regulatory ambition of Piketty's proposals is in fact clearly about the "production of norms." The capital tax is "undoubtedly" (to use another of Piketty's favorite phrases, *sans doute*) an attempt to recreate a Keynesian "social interest" (however illusory it may or may not have been in reality) and to forge a Hegelian–Keynesian state-civil society "universality." "One might simply note," Piketty remarks, that "there is a massive chasm between the victorious declarations of responsible politicians and what they are really doing. This is extremely worrying for the equilibrium of our democratic societies."[53] The task is neither to rid society of inequality in wealth or income, nor to reinvigorate the socialist state, but to rebuild the legitimacy of liberal capitalism—its attendant and inevitable inequalities—in the twenty-first century.

If for some reason we did not realize this was not a reconstruction of Marx's *Capital* for the world after Lehman Brothers, we should now: "We must insist on this point: the central question concerns the justification of inequality, even more than its particular level."[54] This is a twisted, but eminently rational, realization of the revolutionary Declaration of the Rights of Man and Citizen of 1789, a document to which Piketty, like Robespierre, explicitly links his efforts.[55]

Economics, Science, and a Revolution without Revolution

And yet I think it worth emphasizing that this link to revolutionary aspiration, through the Declaration, is neither superficial nor expedient nor accidental. Keynes and Piketty, like Hegel, are both caught up in a quasi-utopian effort to construct a state-civil society equivalence—even an indistinguishability or "universality"—that is also fundamental to, if differently inflected in, a wide range of Left thinking: from Marx and Engels's early ideas about communism, to Proudhon's mutualism, to Gramsci's integral state, and to Habermas's more social-democratic aspirations.[56] Consequently, contemporary knee-jerk Keynesianism on the center and Left—undoubtedly a major factor in the eager embrace of Piketty—is not a mere last resort defensive posture, as if the desperate attempts to fend off free market imperialism have simply made an otherwise unacceptable Keynesianism comparatively attractive. It is also the case that at a vital and deeply historically embedded ideological level, the anxious political economy quaking beneath *The General Theory* and *Capital au XXIe siècle* resonates with many if not most "progressive" and social-democratic economic ideas currently in circulation in the global North.

The problem is that this thread in Keynesianism also resonates, often just as well, with other, much less emancipatory alternatives, like Schmitt's "total state" or the "market-based" noncapitalist system Giovanni Arrighi identifies with modern China in *Adam Smith in Beijing*.[57] Indeed, despite his hatred of fascism, Keynes was (notoriously) impressed by the Nazi state's economic achievements, which seemed to capture the way in which a radical shift in the popular understanding of the relation between state and civil society demonstrated that "there are no intrinsic reasons for the scarcity of capital" and exploded the idea that modern civil society requires us to "keep ourselves poor." But these pressing *political* complexities at the heart of Keynesianism are often suppressed by "progressives" in favor of attacks on the *analytical* merits of competing economic models.[58] This is the reason we still have to endure the endless heterodox and radical excoriation of orthodox or "neoclassical" economics—some-how the true source or legitimizing theory of neoliberalism—even when we are simultaneously convinced and bored out of our minds by the futility of preaching it to the converted over and over again.

Centrists, Marxists, and everyone in between constantly bemoan the ridiculous epistemological and pseudoscientific bases of modern economics: the assumptions about *homo economicus*, the perfect rationality and information requirements, the methodological individualism—all of which, we are told, are not only wrong but a deceitful disservice to the richness of human life, motivation, and potential. This is undeniably all absolutely true. Held up to measure against the world in which we actually live, modern orthodox or mainstream economics, the self-proclaimed "queen of the social sciences" is indefensible. Wherever its "wisdom" is followed to the letter, the result is a disaster. It is, categorically, a defense of undeserved privilege and an apology for undeserved poverty. Only when those taking its advice are aware that it is ultimately fundamentally wrong has it proven even remotely beneficial to our collective welfare.

But these facts of the matter aside, progressive or left complaints are often disingenuous. For it is not clear that orthodox analysis would be the object of such scorn if its conclusions were not anathema to progressives' admittedly dynamic and diverse political goals. On essentially positivist grounds—the relative empirical accuracy of this or that economic account—the turn from orthodoxy to Keynes is "common sense." His economics, while still clearly flawed, is an infinitely better description of the *capitalist* order in which we "actually live."[59] Keynes really was objectively more correct, and many "progressives" hold him out as a logical basis for their opposition to the market order. But in the end, attacking the science of economics—berating its methods, debating its models, disproving its behavioral assumptions, and so forth—is a substitute, and not a very good one, for attacking its politics.[60]

The politics of what gets called "neoclassical" economics lies to a significant extent in its self-consciously apolitical posturing. It embraces a (false) scientific objectivity, thereby asserting not so much the "naturalness" of the status quo—for it is certainly recognized it could be otherwise—but some privileged insight into the "naturalness" of the human propensities that produce it. This privileged insight is of course something we might expect from scientists who actually talk to people and try to understand the "thickness" of their lives, but economists are virtually none of those scientists. And yet, on the basis of formalized, abstract, quasi-mathematical theorizing—a Kantian science, you might say—they declare it "proven" that these human propensities are turned to greatest collective advantage, or given least destructive form, by "unfettered" markets. In other words, beneath the Smithian fundamentals, the liberal justification for the pursuit of individual self-interest is ultimately that it ensures *collective* well-being—what we might call socially responsible self-interest. So, we are assured, even though humans are naturally selfish, this is a collective evolutionary "adaptation": what recommends selfishness in the long run is not private interest but its social contribution.

Moreover—setting aside the almost otherworldly ridiculousness of these claims—if this is so then restricting the individual pursuit of self-interest is bad not only because it limits collective well-being, but also because it suppresses "human nature." This, economics is more than bold enough to suggest, is somehow going to result in people blowing some psychosocial valve and doing bad things. In other words, the neoclassical or orthodox position holds either that human "nature" is by definition a "good" to be nurtured (presumably because it is supposedly "natural")—and it is therefore wrong to suppress it—or human nature is immutable and, if unduly constrained, will lead to "perverse" outcomes we will deeply regret. All of which explains why, as Marx and Engels put it, "the bourgeois is a bourgeois—for the benefit of the working class."[61]

Keynes and Piketty make no less sweeping claims to apolitical scientific truth—remember that the title of *The General Theory* is meant to recall another "general theory" (Einstein's relativity), and *Capital au XXIe siècle* announces the revelation of the "fundamental laws" of capitalism.[62] Like all critics of (neo)liberalism, they also make assertions about the social conditions in which humans best flourish or the ill that comes from suppressing "natural" human needs or desires, and both conclude we risk blowing the hydraulic social valve. But, despite the knee-jerk or intuitive appeal to some on the Left of arguments that condemn inequality or domination as destructive or unsustainable, on the basically scientific criteria we emphasize in our dismissal of (neo)classical economics' "unrealistic" theories, there is not a whole lot of evidence that progressive claims are more obviously universally and transhistorically "true." One could even argue that the part of Piketty's argument that has made him a progressive darling—the idea that inequality is bad for society—is founded on a theory of human motivation barely distinguishable from the self-interest the Left ridicules in the hands of mainstream economics. The expectation or demand that the poor or the working class or the subjugated should or will throw off the capitalist burden or embrace Occupy Wall Street is always based at least partly on the assumption that collective action is in the end self-interested. Inverting the classical sages' vision of self-interest as the means to collective welfare, the modern "progressive" holds that collective well-being is the path to self-interest—socially responsible self-interest versus effectively self-interested social responsibility. Recall the political paralysis of the Bush era, when the Left in Europe and North America struggled to understand, as Thomas Frank put it, "What's the matter with Kansas?" How could the poorest state in the United States vote for Republicans who would only further impoverish them? Why didn't the poor and disenfranchised act in their (presumably selfish) "interests"?[63]

One way to get out of this—which involves abandoning any claim to an economics devoid of politics and rejecting the sacred separation of politics and the economy (an act of disciplinary treason of which Piketty is constantly accused)—is to admit that "human nature," like capital, is a product of its time and place and to assert, on political rather than scientific grounds, what a better "human nature" would be, and why. But any program to remake human nature has a nasty set of political predecessors. The compulsion to turn back at this frontier is ultimately where the appeal of Keynesianism lies. Keynesians tell us that, with proper stewardship and appropriate institutions, "human nature" is basically good enough and that, in conditions of reasonable social justice, it will do reasonably good things.[64] The question of political agency—outside the “universal class” of enlightened technocrats managing the state apparatus, at least—never arises and need not concern us.[65] We can safely denounce orthodox economics’ celebration of the survival-of-the-fittest while remaining on the terrain of science and disavowing the realm of politics—the realm in which we might remake “human nature” and a realm that was the basis of many totalitarian projects.[66] We can indeed have a revolution without revolutionaries.

In other words, Keynes and Piketty tell us that the answers are ultimately not political but technical. The right science can manage the community so that we never have to turn to politics. There are very good reasons this message is so appealing, not just to worried liberals but also to many on the Left. For the rabble and disorder Hegel, Keynes, and Piketty fear is not revolutionary democratic transformation or egalitarian redistribution. They are not trying to suppress the emergence of the common, the multitude, or the “truth” of the working class in the political consciousness of collective freedom. Right or wrong, their fear is lynch mobs, *Kristallnacht*, neighbor informers, religious fundamentalists, the Tea Party, and Donald Trump. This is what many progressives in the capitalist global North fear too, because they have absorbed the same lessons as those they claim to oppose: it is unwise to trust the masses. The twentieth century taught them what the rabble can do. That is why Keynes is embraced so enthusiastically in every moment of capitalist crisis and why Piketty has been given the mantle of knight in shining armor. He has come to subdue the rabble dragon without shedding any blood. But, just as with Keynes eighty years ago, and Hegel two centuries back, it is the existential anxiety at the heart of modern civil society that sent him on his quest.

CHAPTER 15

Revolution After Revolution?

In our own twenty-first century moment, the effusive embrace of Piketty indicates that anxious Keynesianism is alive and thriving. Modern political economy has always already been Keynesian in this sense: haunted by the memory of revolution and upheaval, and thus by a consciousness of the menace of popular rejection of the existing order, but convinced the right tax tweak or policy fix has the capacity to put off disaster so we can focus on economic bliss once more. If we think of political economy as identifying the conditions for the legitimation of a given distributional order (the latter being the problem of "who gets what and how much"), and economics as the problem of market function and price determination, then Keynesianism's reassembly in the wake of increasingly rapid-fire crisis shows how central political economy remains to liberal government, even when it claims it is only interested in economics.

Unsurprisingly, then, tension has filled the air since the collapse of Lehman Brothers in fall 2008, and almost a decade later, things hardly seem more promising. Joseph Stiglitz and Nouriel Roubini warn of austerity-driven fascism; Paul Krugman tells us that Greece's SYRIZA, even when it was still a party of the radical Left, did not go far enough; and Larry Summers is promoting "inclusive economies," rejecting his formerly doctrinaire defense of capitalism in a desperate bid to avoid point-of-no-return social unrest. Martin Wolf, one of liberal globalization's most articulate champions, titled his *Financial Times* commentary of May 27, 2014 "Disarm Our Doomsday Machine."[1] Angus Deaton, the 2015 Nobel laureate in economics, is warning of a middle class "epidemic of despair."[2] Political economy is how liberal government thinks, and Keynesianism's resurrection with 2008 is proof of how true this remains. This is a reengagement with Keynes's "paradox of poverty in the midst of plenty," with Hegel's struggle to understand why, "despite an *excess of wealth*, civil society is *not wealthy enough*" to prevent "an excess of poverty and the formation of a rabble." The anxiety triggered by the "rabble mentality" remains at the heart of liberal government. It is as crucial to the formation of Euro-American modernity as any other dynamic you care to name. These are the conditions Keynes warned us about: the poverty and inequality no one "of spirit" will accept for long.[3]

These fretting public intellectuals are all Keynesians, and Keynesianism is the political foundation for the house they are desperately trying to repair before it all falls to pieces. They all claim to speak in the name of the "average citizen," the working family and the "middle class." Indeed, a blurb on the jacket of the most recent edition of *The General Theory*—the one with an introduction by Paul Krugman—celebrates Keynes as "a workingman's revolutionary." One can only presume he merits the label (which he would have much appreciated) because the workingman and workingwoman need not stop working during the Keynesian revolution. Not that he or she would want to, of course:

> for one reason or another, Time and the Joint Stock Company and the Civil Service have silently brought the salaried class into power. Not yet a proletariat. But a salariat, assuredly. And it makes a great difference … There is no massive resistance to a new direction. The risk is of a contrary kind—lest society plunge about in its perplexity and dissatisfaction into something worse. Revolution, as Wells says, is out of date.[4]

The "decaffeinated" *révolution sans révolution* Keynes proposed—like Hegel's before him—can unfold without the working man or woman worrying himself or herself too much: "If you leave it to me, I will take care of it."[5] In the hands of a bureaucratic universal class with the requisite expertise and breadth of vision, the technical problem of political economic transformation can proceed much more smoothly, and wisely, than if we all got involved. Ensuring the "necessaries" and honor that ground the modern social order, political economy can reconstruct an appropriate separation between Politics and the Economy, the former the superstructural realm in which popular participation is welcome, the latter the structural fundamentals not amenable to democracy.

The effort to properly define the realm of the economic in the interests of ring-fencing the political is not distinctively Keynesian. The assumption that it is not only possible but necessary is in fact "one of the deepest premises of liberalism: politics is necessary, but should not become too serious."[6] And the only way to ensure that it does not is to take "serious" questions off the political menu—questions like poverty, unemployment, inequality, and class struggle, all of which are bound to make the realm of the political a very fractious space.

Liberals have not discovered a consistent manner in which to effect this separation. More often than not, it has been introduced by philosophical, ideological, statutory, or coercive fiat, the variation depending on the context. Sometimes, as in the Prussia of the Stein-Hardenberg reforms, in which Hegel first worked on his *Philosophy of Right*, it means administrative centralization to subdue internal discord among elites.[7] Other times, as in the "Keynesian" era following World War II, it means, as Keynes put it, entrusting "to science the direction of those matters which are properly the concern of science."[8] Today, among other things, it means proceduralizing international trade through undemocratic institutions like the World Trade Organization, abandoning economic sovereignty to organizations like the European Commission or the International Monetary Fund, and handing more and more of the domestic policy realm to the "neutral" technicians steering "independent" central banks.[9] The objective is to excise the "serious" questions by means of technical-scientific or jurisdictional surgery: to ensure that the "economic problem" is beyond "serious" public engagement.

The Political Economy of Hope and Fear

In all cases this involves a paradoxical engagement with political economy: on one hand, the tools of political economy as science are the principal means by which liberal government implements and maintains this separation; on the other, the separation is produced so as to make the expression "political economy" appear oxymoronic, because the economic, which concerns the confrontation with necessity and the maintenance of the social order, is supposed to be (in the words of Hannah Arendt) "non-political" by definition. It is either a technical matter for the state, or a private affair for the household. What it is definitely not supposed to be is an object of struggle or negotiation.[10]

The capacity to construct and maintain this separation—which all Keynesians recognize as artifice, that is, as the social organization of legitimation—is the hinge in the dialectic of hope and fear at the heart of Keynesianism. Hope is only possible when the separation is acknowledged as legitimate, when the poor consent to their poverty. Without it, the economic seeps into politics, and all bets are off. This is the source of Keynesianism's fundamentally antidemocratic character. The separation is not "natural," and it can hardly be expected to hold if civil society self-regulates, since its very operation undermines its own stability, engendering the dishonored poverty that must be suppressed. The institutional and ideological buffer required by the "universal class" that operates the modern liberal state in intermittent concert with the elite capitalist leadership of civil society is thus a matter of life and death. Its legitimacy is, without exaggeration, an existential necessity for modern liberal capitalism, and Keynesian political economy is its principal knowledge and way of knowing. The universal class is the pharmacist of liberal capitalist civilization.

Keynesian explanations of history's moments of descent into "chaos" in "Western Civilization" almost always turn on the way an attempt to construct "true" democracy leads to the contamination of the political by the economic. The inevitable impossibility of meaningful democracy is "proven" by what Keynesians consider to be the history of failure of what we might call *révolution avec révolution*. The moral to be taken from these stories is that the reassertion of order out of collapse always comes in populist-authoritarian form. Hence, the "Arrovian chaos" that followed the French Revolution led to the rise of Napoleon; the Bourbon restoration followed the brief liberal moment of Napoleonic Spain; the Second Republic collapsed with the victory of Louis Bonaparte on the backs of the alienated *lumpenproletariat*; vicious white "Redemption" followed Black Reconstruction in the US South; fascism emerged in barely consolidated Italy and Spain; and the Nazi disaster followed the chaotic end of the Weimar Republic.[11]

These are, sometimes, potted histories, even if they have some truth to them. But it is worth emphasizing that despite some superficial similarities, they are not Hobbesian—they are not about regress to a "state of nature" but instead about the outcome of dynamics particular, and endogenous, to modern liberal civil society. The disorder is not what modern communities protect us from, it is where they lead. These accounts describe capitalist civilization's tendential self-impoverishment, its *progressive* tendency to ruin. There are, then, some very interesting parallels one might draw with the radical historiography that has accumulated on any one of these developments. Radicals too argue that bourgeois-capitalist hegemony is fraught with self-destructive contradictions. They also often tell a similar story of the failure of revolutionary promise, but they usually attempt to show how, in many of these instances, it was not revolution but counterrevolution that precipitated authoritarian calamity. The failure of revolution, or the failure of revolution to arrive at all, is attributed to the constellation of forces that animated the moment and succeeded in preventing the realization of the revolution.

There is, however, a crucial Keynesian move in this retrospective assessment of revolution and "Western Civilization": Keynesianism does not engage in historiographical struggle. It places itself in the spectatorial position Arendt associated with Hegel, above the fray. From the Keynesian vista, the radical account of class forces and material and ideological struggle are accorded some truth-status. Keynesians empathize with revolutionaries. Unlike conservatives or classical liberals, they understand where revolution comes from—the dishonor engendered by poverty, unemployment, and inequality in liberal capitalism is real, and the masses are hardly to be expected to maintain an attachment to a modern community that neglects their welfare but cannot convincingly explain why. What Keynesians claim to "see" from their vista, but that radicals supposedly cannot, is that revolution is no more the "answer" than reaction. Neither revolution nor tradition is the solution. Bourgeois civilization—which all Keynesians understand to be the greatest achievement in history, however flawed—is always already on a tightrope. It contains the potential for bliss or disaster, but bliss is (as it were) only realizable at the end of the rope—a long and precarious walk—while disaster lies on both sides. We will never realize the long run without paying scrupulous attention to the fact that we could fall at any moment.

To Keynesians, therefore, revolution is as naïve a denunciation of modern liberalism's failures as *laissez-faire* is a celebration of its successes. Neither has the perspective or wisdom to look down and see the quivering rope beneath our feet. Hegel and Keynes, like all Keynesians, believe they are among the few that see the rope and get the balance right to make our way forward—which we must, because there is no standing still on a tightrope, and definitely no turning around. We cannot choose to stay where we are, and we cannot go back. Which is to say that often, "putting off disaster" is the only way to realize "economic bliss." That, obviously—or so it seems to Keynesians—is a job for the experts.

Keynes captured this sentiment in his Galton Lecture to the Eugenics Society, "Some Economic Consequences of a Declining Population," given a few months after the publication of *The General Theory*:

> If capitalist society rejects a more equal distribution of incomes and the forces of banking and finance succeed in maintaining the rate of interest somewhere near the figure which ruled on the average during the nineteenth century (which was, by the way, a little *lower* than the rate of interest which rules today), then a chronic tendency towards the underemployment of resources must in the end sap and destroy that form of society. But if, on the other hand, persuaded and guided by the spirit of the age and such enlightenment as there is, it permits—as I believe it may—a gradual evolution in our attitudes toward accumulation … we shall be able, perhaps, to get the best of both worlds—to maintain the liberties and independence of our present system, whilst its more signal faults gradually suffer euthanasia as the diminishing importance of capital accumulation and the rewards attaching to it fall into their proper position in the social scheme.[12]

This political path is a critique of both liberalism and radicalism at the same time, one that drops out of view when we speak of reaction and revolution and their mediation through "reform."

This is the crucial thread that Antonio Negri, in his deservedly famous 1967 essay on Keynes and Keynesianism, calls "bourgeois Utopianism." It invokes a "mystified notion" of the social interest "to represent an end-situation which could be attained 'without revolution'": "Capital becomes communist: this is precisely what Marx terms the communism of capital."[13] While Marx in fact never used the phrase "communism of capital" (nor "socialism of capital"), Negri touches on a crucial issue here.[14] His point is definitely not an endorsement of Peter Drucker's claim that we have reached an age of "pension-fund socialism." It is also very different than Žižek's critique of philanthro-capitalist "liberal communism"—Bill Gates or some other billionaire acting on Marx's dictum ("from each according to his abilities …"): fighting poverty or climate change, supplementing capitalism with "communism," putting a "humanitarian face" on exploitation.[15] Neither is it an anticipation of Paolo Virno's analysis of the post-Fordist (which is also, supposedly, post-Keynesian) neoliberal order as a "communism of capital." Virno argues that neoliberalism has operationalized a perverse capitalist variation on some of communism's central demands: wage labor is abolished, but only in favor of precarity for those fortunate enough to have any work at all; the state withers, but only in the interests of corporate power and market discipline; alienation is resisted, but by fetishizing difference, not building solidarity.[16]

Both Žižek and Virno identify crucial features of modern liberal capitalism. But Negri is pointing to something broader, an arguably more fundamental movement in its historical dialectic: "a secular phase of capitalist development in which the dialectic of exploitation was *socialised*, leading to its extension over the entire fabric of political and institutional relations of the modern state."[17] In this account, capital is "communist" in two basic senses: First, it is communist in that its "community of the free" is composed of the multitude of capitals; when households are left to their own private disasters and banks are lavishly and uncritically bailed out, for example, the "community" to which the collective is dedicated "in common" is clear. To the extent that the worker participates in this communism, it is only as he or she is "massified," in other words, contributes to aggregate demand and is exploited in the interests of a "community of the free" to which he or she only "belongs" by virtue of that exploitation. Second, Keynesian capitalism is communist in the simple sense that it promises to attain, through an illiberal liberalism, a Utopia not entirely unlike (some visions of) communism: a world without rent, in which individual liberty and the social interest are both protected and the love of money and the scarcity value of capital are eliminated.

The "Bourgeois Dialectic"?

And yet, Negri understandably does not trust the Keynesian promise. Indeed, it seems to him *impossible*. Remarking on Keynes's 1930 claim that the "problem of want and poverty and the economic struggle between classes and nations is nothing but a frightful muddle, a transitory and *unnecessary* muddle," Negri writes that there "is not even a sense of full and secure conviction: he is consciously disguising what is basically—and necessarily—an irrational obligation, an obscure substitute for any content of rationality."[18] Negri attributes this to Keynes's "clear-sighted conservatism," for which *The General Theory* is a "political manifesto": "a manifesto of conservative political thinking, in which a sense of present depression and anxiety for a doubtful future paradoxically combine to force a systematic revolutionising of the whole of capitalist economics." In other words, it is an attempt—by way of political economy, we might add—"to rule out a range of catastrophic possibilities and to cancel out the future by prolonging the present."[19] This is the core of what Negri calls Keynesianism's "bourgeois dialectic," which "knows no sublation, it cannot overthrow its object."[20]

This is an incisive, stimulating, and welcome intervention. Yet there are ways in which its keenness exposes more than the ironic concept "bourgeois dialectic" is willing or able to handle. The phrase identifies an essential aspect of the Keynesian critique—its relationship to liberalism—but Negri does not pursue it very far. Instead, he uses it for rather un-dialectical purposes: to oversimplify (or deny entirely) Keynesianism's relation to modernity's revolutionary past and to exaggerate its correspondence with liberalism, at the expense of an understanding of some key aspects of the inner workings of both revolution and liberalism.

Negri evokes the "bourgeois dialectic" in the context of a critique of *The General Theory*'s celebrated dismantling of Say's law, which Negri holds to be a merely superficial attack on orthodoxy. To Keynes, the key to full employment was not classical liberalism's *laissez-faire* but reduced uncertainty—and yet, in *The General Theory*, he claimed that it was precisely by reducing uncertainty to encourage sufficient investment that classical *laissez-faire* would again become possible. Then Say's law would come back into force and orthodox analysis would be true to the world. Orthodoxy is only sustainable through unorthodox means. This is the culmination, without sublation, of the "bourgeois dialectic." As Negri puts it: Keynes's "destruction" of classical economics

> served only for its reconstruction … The bourgeois dialectic knows no sublation, it cannot overthrow its object. Whenever Keynes reaches the extreme limit of his critique, he is paralysed by a philosophy that stops him in his

tracks.[21]

The question, though, is what obstacle sets the "limit" to the Keynesian critique? What is the philosophy that stops it in its tracks? Negri's answers are the revolutionary working class and communism. If only it were so. In fact, the answer to both questions is liberalism. For Keynesianism, liberalism is simultaneously capitalism's gravest problem and its only hope. This is what it actually means to say the "bourgeois dialectic knows no sublation, it cannot overthrow its object." Which is also to say that Negri unwittingly, but accurately, impugns the bourgeoisie with a double historical failure: not only is it an obstacle to the "emancipation" anticipated by so many communists, but it cannot get the movement of history right, even on its own limited terms. For a dialectic without sublation is no dialectic at all. It not only contradicts the inevitable radical emancipation upon which Negri's reading of Marxism depends entirely—and for this alone Negri condemns it out of hand—but it also goes so far as to deny what it cannot—the very force of history. It is, therefore, necessarily doomed by its own impossibility.

Because the first failure is merely a particular affront to Negri's own political theology, it is of little interest. If the problem with historical development is that it appears to contradict the answers he has formulated to questions that have not even been asked yet, that is not history's problem, but Negri's. The second failure is of far more interest and a far more important critical contribution. Neither the limits of Keynesian political economy, which Negri calls the "science of capital," nor the philosophy that "stops it in its tracks," is imposed externally upon the bourgeois dialectic. As Negri knows, the antagonistic nature of the working class and its politics—the "masses"—are a product of bourgeois capitalism's own contradictions. Although Negri develops a compelling and historically engaged account of the rise of the working class as the form "demand" takes in modern capitalism, it nonetheless fits quite readily into a rather standard Marxian mold, in which capitalism's crisis tendency emerges in part from its contradictory dependence on workers—they must simultaneously be producers paid as little as possible and consumers purchasing as many commodities as possible.

According to Negri, the particular but simultaneous problems *The General Theory* struggles to understand are economic (the Great Depression) and political (the "full independent expression" of working class politics in the Russian Revolution of 1917), but nonetheless two sides of the same process: the latter effectively triggered the former, he argues, because capital's terrified response to the Bolshevik victory led to the technological "repression" of the working class and hence to overaccumulation crises associated with unsustainable economywide organic compositions of capital. Negri identifies *The General Theory*'s distinctive merit in that it marks the point at which the real force of this dual crisis breaks the surface of capitalist thought. Keynes, he says, is the first to acknowledge—albeit without being fully aware of it—"the emergence of the working class and of the ineliminable antagonism it represented within the system as a *necessary feature of the system which state power would have to accommodate*."[22]

In Negri's analysis, then, Keynes represents the reluctant bourgeois recognition of the historical fact of working class autonomy.[23] In a postrevolutionary echo of Hegel's lordship and bondsman dialectic (the same dialectic discussed with regard to Haiti in Chapter 8)—the proletariat's fundamental independence forces itself into liberal consciousness: the proletariat does not need capital; capital needs the proletariat! Keynesian political economy is an attempt, in the face of the radical "philosophy that stops it in its tracks," to design a capitalism that can withstand the challenges posed by a working class autonomy Keynes could not help but admit when his critique reached its “extreme limit.” It acknowledges

> the real problem facing capital: how to *recognise the political emergence of the working class*, while finding a new means (through a complete restructuration of the social mechanism for the extraction of relative surplus value) of *politically controlling this new class within the workings of the system*. The admission of working class autonomy had to be accompanied by the ability to control it politically.[24]

Negri developed this analysis in the 1960s, returning to it only intermittently and briefly in the years since, but it remains the best critical account of the Keynesian contribution we have. His most crucial move is to read *The General Theory* as a “political manifesto”—not just because to do so offers new insights, but because that is, in fact, what it is. That it takes the form of political economy is an absolutely essential aspect of its politics (as I argued in Chapter 8 and as Hegel said two hundred years ago).

Nevertheless, Negri misconstrues his subject in fundamental ways. This is due in part to his selective engagement with Keynes and Keynesianism (perhaps a function of the material he could get his hands on), but to an even greater degree to his failure to embed the Keynesian critique in a liberal tradition that stretches back long before the Russian Revolution. This leads him to exaggerate *The General Theory*’s “decisive” breakthrough, as if it were an unprecedented capitalist response to the power of 1917, and thus, as many Marxists have done (and still do), he reads the Keynesian critique of modern capitalism as essentially a “mixed economy” *rapprochement* with the working class or the Left more broadly.[25] For Negri, Keynesianism ultimately represents the always contradictory effort to save capitalism from communism, the means to become a “planner state” (*stato plano*) that keeps the workers happy enough to prevent them from going red.[26]

Yet, because this is very clearly a part of what Keynes hoped to achieve, it leads Negri (and many others) to take the recognition of the need to “appease the masses” as evidence of a more fundamental motivation: the bourgeois fear of communism in the form of the revolutionary working class, embodied so powerfully in the Bolshevik Revolution. In other words—returning to the question of what Keynes came to save capitalism from and why he came to save it—Keynesianism here arrives to rescue capitalism from the proletarian liberation that marches inexorably toward it on all sides. Negri argues that Keynes offers a more effective solution to the *same problem* to which “immature ruling classes responded with fascist repression”: the “inherent antagonism of the working class.” “The British working class appears in these writings in all its revolutionary autonomy.”[27]

This is not true. Or, if it is true, it is so partial and trivial that it is for all intents and purposes untrue. If it is not unreasonable to assume, first, that by “revolutionary” Negri means the kind of revolution he has spent his whole life working toward, and second, that his concept of “autonomy” suggests a capacity for the self-organization of such a revolutionary project, then his argument is based upon a crucially important misunderstanding.

Keynes-the-Edwardian-gentleman was of course concerned about the founding of the Soviet Union and class-conscious proletarian unrest. But anything more than a cursory engagement with his work will reveal his life-long commitment to the more complex Keynesianism traced in previous chapters, a Keynesianism that was a direct response to World War I and its aftermath, especially fascism. For him, the “inherent antagonism of the working class” is a poor and ultimately naïve description of the range of politics engendered by modern liberal capitalism. Insofar as capitalist civil society persistently produces poverty, and thus the immanent potential for the emergence of a rabble driven by necessity and unfreedom to undo the social order, then as far as Keynes was concerned, it was indeed a possibility that some collective that identified as “the working class” would be rendered "inherently" antagonistic to the social relations of liberal capitalism.

But this was only one possible form of "inherent antagonism," and all evidence suggests that for Keynes (and for Hegel also, if we can admit some anachronism), a class-conscious proletarian revolution in the struggle for communism in western Europe or North America was one of the more unlikely ways it would realize itself. Anything approaching what Negri means by "communism" would have appeared to Keynes and Hegel as the lesser of several evils. Keynes feared the radical Left, certainly, but no more (and arguably quite a bit less) than fascism, radical conservatism, authoritarianism, demagoguery, and anything else that smacked of dogmatic "fundamentalism," because he understood all of them as undermining the stability of "civilization." Keynes feared the rise of an intransigent Right as much as a radical Left, since they both posed a serious threat to the precarious stability of modern communities by making them too inflexible. The Keynesianism of Hegel, Keynes, and Piketty is less a project to save capitalism from communism than to protect modern bourgeois civilization from disorder and the chaos and disastrous totalitarian fundamentalisms—Stalinist, National Socialist, or otherwise—to which they expect it inevitably leads. If that means saving some fundamental capitalist political economic architecture, well, then of course it must be done. *Révolution sans révolution* will always prioritize load-bearing features of the status quo.

And just as important, Keynesianism is not a project to save capitalism from some threat because these forces menace "modern communities" from outside. On the contrary. The greatest threats to the social order to which Keynesians are committed are products of that very order. They take the "ethical" bases of liberal capitalism—the uncoordinated and unrestricted ("free") pursuit of individual self-interest in the inherently unequal context of a modern "monetary production economy"—to lead inevitably to poverty and thus to rabble mentality. If unaddressed through an adequately legitimating ideological and institutional constellation, such conditions appear to render "the masses" all the more prone to the populist dogma to which they are susceptible even at the best of times. Since they do not understand how close to chaos we actually are, they are more willing than they should be to sacrifice measured practice to vengeful doctrine. The result will be a nightmare impossible to contain. The problem is not, then, the seeds that distributional radicals like Robespierre have always sown, but rather the soil in which they are sown, a soil that is cultivated by a liberalism afflicted with a sort of pathological far-sightedness: it is so convinced of its abstract, long run Truth and Reason that it is blind to the short run perils that threaten any such project.

But if the provision of necessaries and the promise of honor adequately buttress *Sittlichkeit* in a society, then these forces have no purchase. The Keynesian solution to this always-looming risk to civilization that lies at the heart of liberalism thus takes the form of a reluctantly radical, immanent critique of liberalism. Rather than freezing in its tracks when confronted with its extreme limit, the critique instead operationalizes the most sophisticated tools at liberalism's disposal—the tools provided by modern political economy—in the pharmaceutical, even surgical, management of the body of liberal capitalism itself. In the hands of the state, these instruments can (it is hoped) cure liberal civil society of its disorderly tendencies, thus literally saving its life—which is synonymous with saving civilization.

I, Bourgeois

In the long run we are all dead, so let us not wait until then: this is the paradigmatic problem for bourgeois political economy. Indeed, it seems to me that whichever way we turn, we cannot avoid returning to the figure of the bourgeois at this conjuncture. The figure is fraught if only because to conjure it up is to expose oneself as anachronistic or to immediately identify oneself with a Marxian critique (at which point many stop listening) or both. Consequently, I bring up the figure of the bourgeois aware of its potential untimeliness but unable to shake the conviction that it captures something that is far from anachronistic. I do invoke a Marxian sensibility, but not only, and in any case Marx himself used the term "bourgeois" far more specifically than some Marxists, for whom it has become an insult, spat off-handedly at the habits of the professional and managerial classes. Despite all this, it seems to me that the bourgeois—as Hegel, Marx, and others since have analyzed him or her (mostly him)—is in fact crucial to Keynesianism, and alive and well, if not so coherent in his or her identity as perhaps was once the case.

On these grounds, the bourgeoisie is a key figure in a fractious and volatile modern age that really begins with the French Revolution. Since the end of the Terror, it has not only made up a significant part of the capitalist class, but of the professionals, managers, and well-paid workers, too. It is long associated with "culture" and "ideas" and "art"—"civilization," as it were. It is not reactionary but "conservative" in the bland sense of the word, interested in "disciplining change."[28] It has also long been dismissed as "rationalist and unheroic."[29] Hegel, the first to make the bourgeoisie the true protagonist of modernity, was also the first to diagnose in detail its essential political inadequacy: its members "find compensation" for their "political nullity" in

> the fruits of peace and of gainful employment, and in the perfect security, both as individuals and as a whole, in which they enjoy them. But the security of each individual is related to the whole, inasmuch as he is released from courage and from the necessity … of exposing himself to the danger of violent death, a danger which entails for the individual absolute insecurity in every enjoyment, possession, and right.[30]

We do not have to adopt the martial undertones of this denunciation, I think, to appreciate its capacity to capture an important quality of political life in modern liberal capitalism. This unheroic, anxious, absolute insecurity engenders in the bourgeois a "glorification of what exists" that is "always accompanied by the delusion that the individual —that which exists purely for itself, which is how the subject necessarily appears to himself in the existing order—is capable of the good." Adorno—whose sharp and prescient words these are—claims that "Hegel destroyed this illusion."[31] That seems to me patently untrue. If anything, Hegel, and Keynes even more so, have made it possible for the illusion—if indeed it is an illusion—to persist long past the end it would have suffered without them. Keynesianism rescues the bourgeois in the modern sense—the sense in which it is epitomized by Hegel the wine connoisseur, by Keynes and his Bloomsbury colleagues, by contemporary "progressive" (and even some "radical") cosmopolitan academics and professionals.

This is certainly due in part to "the bourgeois spirit [that] has spread well beyond the bourgeoisie," and the bourgeois "illusion" is arguably far more generalized today, in Piketty's moment, than when Hegel or even Keynes was writing.[32] And if the bourgeois spirit has spread, it is almost certainly among the self-identified middle class. In the affluent global North, that is not a small fraction of the populace. As of 2015, while the number is declining due to the fallout of the "Great Recession" and (probably even more because of) accelerating inequality, between 50 and 60 percent of US households still self-identified as middle class.[33] A 2008 survey found that almost half of respondents with annual incomes below $20,000, and a third of those with incomes above $150,000, considered themselves middle class. There is of course no reason to identify the bourgeoisie as coextensive with the "middle class," and it is important not to generalize the US experience across other liberal capitalist nation-states, but they are certainly overlapping categories, especially since the dawn of the "Keynesian" era following World War II.

Consider the following, from a 2010 US Department of Commerce report to the Vice President:

> Income levels alone do not define the middle class. Many very high and very low-income persons report themselves as middle class. Social scientists have explained this by defining "middle class" as a combination of values, expectations, and aspirations, as well as income levels. Middle class families and those aspiring to be part of the middle class want economic stability, a home and a secure retirement. They want to protect their children's health and send them to college. They also want to own cars and take family vacations. However, aspirations alone are not enough; middle class families know that to achieve these goals they must work hard and save.[34]

These aspirations are obviously the historical product of the Keynesian Golden Age, but some combination of them would seem to me to accurately characterize at least a substantial portion of any twenty-first century incarnation of Hegel's unheroic and insecure bourgeois as well as the "bourgeois and intelligentsia" whom Keynes celebrated as "the quality in life and surely carry the seeds of all human advancement."[35] There are moments when many, myself included, can find themselves in the thrall of these aspirations. Which is to say that, if it is possible to live this identity, which should be (and is) riven with contradictions, it is because of two bourgeois delusions: first, that the individual (though not only the individual) is capable of the good; second, as Habermas said typifies the bourgeois, to be bourgeois today is to be a member of a class that has convinced itself it no longer rules.[36]

This is the "bourgeois dialectic" that "cannot overthrow its object." According to Negri it "knows no sublation" since its first and last moments appear to him identical. Liberalism begets liberalism. But it is not really so simple. The bourgeois or Keynesian dialectic is not a sorry attempt to stall the force of history. It is structurally akin not to Marx's account of the emergence of capitalist social relations from their precapitalist predecessors, but to his account of the specificity of capital as a sociohistorical relation. Just as in the operation of capital the commodity stands for Marx as a middle term in the expansion of value—*M-C-M*´—the Keynesian dialectic captures a dynamic at the core of two centuries of actually existing, illiberal liberalism, in which the state is the middle term: *L-S-L′*. At least since Thermidor, liberalism has been renewed and reconstituted through the state and its political economy, a process that continues. If *M*, *C*, and *M′* constitute the moments in the movement of value, for Hegel and Keynes *L*, *S*, and *L′* are the moments in the historical development of freedom, in which the gradual evolution of *L′* to *L″* represents the consolidation of a conception of freedom that embraces the necessity toward which the state constantly and pragmatically turns it. Freedom develops in the recognition of necessity's necessity.

Keynesianism's decisive contribution to liberalism is to have legitimized its hegemony by continually, pragmatically, and scientifically generalizing a worldview in which the welfare of the state and the prosperity of civil society are conceptually inseparable: this is in fact the *definition* of "civilization." Its inescapably illiberal liberalism has proven essential to the survival of even the most dogmatically classical liberalism, providing it with an anxious political logic without which it would never have survived without the constant use of brute force. The bourgeois and the middle class are thus both effect and cause of Keynesian "civilization." "Civilization" provides the ground upon and against which many—especially but not only those enjoying any degree of privilege—have come to build a life. If there is a bourgeois dialectic whose engine consistently stalls on the on-ramp to the highway of History, it is because the bourgeois dialectic has been carefully constructed, politically, ideologically, and materially, so as to avoid at all costs overcoming its object. Surely no "civilization" in history has been so persistently and increasingly tweaked, groomed, massaged, sutured, studied, and monitored as modern liberal democratic capitalism. Surely no modern "civilization" has been so introspectively and pragmatically attentive not just to the order of government or the state, but to the "arrangement of society as whole."[37]

None of which is to defend that "civilization," with or without scare quotes. But it is to say that its very object—to (paradoxically) *not* "overcome its object"—is premised on deferral. The interplay between hope and fear at the heart of Keynesianism, between the promise of "economic bliss" and the threat of disaster, erases something crucial to deep social transformation or revolutionary politics. It is not so much that the future is collapsed into the present (a variation on Fredric Jameson's description of postmodern temporality) but rather that for many, it no longer seems reasonable to imagine we could construct a future of our own choosing. Too much could happen between now and then. That is a long-run project, and in the long run we are all dead.

Moreover, although Joan Robinson tells us that Keynes tended to go through moods when capitalism enraged him, and others when he sang its praises, the self-arresting bourgeois dialectic of hope and fear at the heart of Keynesianism and modern bourgeois (Keynesian) "civilization" is less and less a trampolinelike experience in which we confront the world in successive stages: a lift of optimism, followed by a fall of pessimism, then bouncing optimism again. Today, I would argue that our political "animal spirits" are not moved by a rhythm of hope, then fear, then hope once more. Instead, it is both hope and fear, all at once, all the time. At times it becomes difficult to know one from the other. My hopes for my children, for example, are not that they will "do better" than I have, or achieve more than I have or will (as we are told was the case for the previous generation). My greatest hope for my children is that their future will not turn out to be as disastrous as I fear it will be. From this perspective, a revolutionary Leap of Faith seems simultaneously absolutely necessary and a very bad idea.

This is not liberalism, but bourgeois-dom, and it is the force that never lets Keynesianism go. Revolution will always frighten Keynesianism, because revolution claims to guarantee what Keynesians think they know is *impossible*. Everything they have ever thought tells them so, all the history they know tells them so, even when they know that the *status quo* is untenable. Maybe, just maybe, there is something up the road; you never know: "If we are at peace in the short run, that is something. The best we can do is put off disaster, if only in the hope, which is not necessarily a remote one, that something will turn up."[38]

In the post-Golden Age conjuncture of accelerating capitalist political-economic volatility, ecological degradation, and the threat or likelihood of catastrophic climate change, all this makes perfect sense. This is where the increasingly widespread urge to embrace the promises of "Green" Keynesianism comes from: a combination of technocracy and technology, state and private enterprise, that will—some-how—not only get us out of our ecological bind, but will stimulate growth and jobs, counteract inequality, promote international cooperation, and produce a world which can only be a better, more environmentally friendly version of "civilization's" status quo.[39] All without significant interruption, too: it will be a "workingman's revolution." The new and improved modernity will of course struggle with the same tragic tendencies to the production of poverty, unemployment, and inequality, but they will be less pressing, and, because our attention to the constant political-ecological and political-economic panic will no longer be so urgent, we will have greater resources to dedicate to making modernity even better still. Who would not want to participate in this collective act of wish fulfillment? If nothing else, it is better than the apparent alternative (awaiting the arrival of "Arrovian chaos" and the demagoguery to which it is sure to lead).

Doctor Marx and Mister Keynes

Some readers of an early version of the first chapter of this book—committed, engaged, effective young activists I feel fortunate to even know, let alone to have read my writing—suggested that even if this analysis of the current moment does not justify this conservatism, it nonetheless conveys the message that hope for radical change is lost, that their admirable work to change things is a waste of time. I tried, and failed, to convince them that to acknowledge this Keynesian common sense "out loud" is neither to defend nor to accept it, nor even to admit its (capital T) Truth. Nor is it to claim that it is futile or foolish to resist this promise—which, I might seem to be saying, they should welcome because it is the "best we can hope for" or for some other pragmatic reason. It is neither. If nothing else, I am as certain as I can be that something like "Green Keynesianism" is no solution to the ecologically and politically destructive trajectory we are on. The question of what politics and political economy, bourgeois or not, will look like in the future will largely, I think, be a product of how that failure unfolds and on whose watch, if anyone's.[40]

Instead, the importance of acknowledging the ideological power of Keynesianism lies in the fact that it is one of the toughest obstacles any project of more-than-trivial social transformation will face. Currently, I would venture to suggest, it hegemonically defines the horizon of the peacefully possible for both those who understand themselves as in fundamental political opposition to much of the current liberal capitalist order and those whose dogmatic and unwavering faith in austerity is always tacitly back-stopped by a Keynesianism-of-last-resort. Insofar as nonviolent transformation is the goal, Keynesianism is the politics and political economy to which many people "nearest" to the Left feel most attached, because on the terms of that politics, letting go is to abandon reason and relinquish control by throwing one's fortunes in with the masses. From that perspective, a lot has gone wrong, and a lot more could yet. If a nonviolent constraint is not binding, then the political project is all the more daunting, since a constituency that might rally around Žižek's call—however qualified and mystified—to embrace and renew a revolutionary Terror has yet to realize itself.[41] Outside the lunatic fringe of neo-Nazis like Golden Dawn and US militias, there is not yet virtue in terror again; in the age of the Islamic State of Iraq and Syria and imperialist drone attacks, the idea seems, if nothing else, entirely and justifiably discredited.

Indeed, there are many who might not be willing to grant revolution and revolutionaries much credit any longer. Keynesianism is premised, among other things, on the recognition that there is no best or permanent "solution" to the problem of sustaining "civilization" and a legitimate and stable social order. There being no "right" answer to the challenges of this or any other conjuncture, and especially no *single* "right" long-run destination, the arrogance on the part of the stereotypical revolutionary to claim there is a right answer, and the assumption of the omniscience to name it, might be difficult to put up with anymore. At the very least, when, for good or ill, revolution or radical transformation commonly conjure up Stalin, Mao, or Castro (and, perhaps, Ho Chi Minh, Franco, or Ben Bella), the historical support for the Leap seems weak. None of these stories ended well for the very "people" who supposedly thought they were finally taking the reins of their own history. The fact that in actuality, all of these histories are more complicated, that in many cases the revolutions were crushed or betrayed by domestic reactionaries or imperial forces, that however bad it turned out, it might still be better than what would have been—none of this, unfortunately, is all that important unless we can tell those histories differently, in ways and places that can be widely heard and embraced. Until then, at least in the part of the planet with “something to lose,” Keynesianism always appears the more “realistic” proposition.

These failures are not lost on the young activists who read my draft chapter. Their persistently hopeful resistance in thought and action is not naïve; they are not “radical” merely because they are youthful, starry-eyed, or full of rebellious contempt for their elders. On the contrary, they seem much older than they are, more jaded than they “should” be, but unwilling to give up. Habermas, whose late politics epitomize much of Keynesianism, nonetheless accurately captures some of this.

> The Revolution itself has slipped into tradition: 1815, 1830, 1848, 1871, and 1917 represent the caesurae of a history of revolutionary struggles, but also a history of disappointments … Melancholy is inscribed in the revolutionary consciousness—a mourning over the failure of a project that *nonetheless cannot be relinquished*.[42]

At a political level, a consciousness caught up in a fusion of these positions is no doubt appropriate to its material conditions, Doctor Marx might say. The quotidian concerns of Mister Keynes constantly break in on and destabilize an intellectual–political life informed by the good Doctor.

When I began this project many years ago, I planned to write a Marxian–Gramscian critique of Keynes’s resurrection in the wake of the financial meltdown of 2008. What I found in the writing, however, was the reluctant, even repressed, Keynesian in myself. And yet I would argue that in the end, I have in fact written a Marxian–Gramscian critique of Keynesianism through political-intellectual history. It is not the radical destruction of Keynes I planned it to be—far from it. But it is, or is intended to be, an attempt to make Keynes our Hegel, and through Keynesianism to understand the operation of a remarkably robust, immanent critique of modern liberal capitalist “civilization.”

The question this contradictory condition poses for anyone who experiences it will of course be what to do. The Marxist in him or her will suggest he or she must “choose,” and, in Lenin’s words, only the “shame-faced” coward will choose Keynes. That, however, is not true—or we had certainly better hope it is not true—not least because ideology and the sediment of *Sittlichkeit* are not that easily sloughed off. If one imagines that the necessary revolution involves the more-or-less rapid and voluntary renunciation, by millions, of ideology that most of us cannot even recognize as ideology (that is how ideology works), then I think it is fair to say we are doomed.

This poses particular challenges for the Left in the capitalist global North, a diverse mix whose one shared quality is perhaps a special sensitivity to the precarious meaning of the past. The idea that popular revolution was once a useful tool of historical progress but is no more—properly “social revolution,” as opposed to mere regime-changing “political revolution”—may be completely wrong-headed. Revolution might very well be the way in which we turn modernity around and orient it in the direction of a just and planet-worthy future. But the idea that revolution has had its day and is no longer a viable option is not incompatible with some aspects of contemporary “progressive” and “radical” politics. And if some have concluded that many of the struggles of the past and their political methodology have exhausted themselves or have ultimately failed, it would be foolish to say that conclusion is entirely unjustifiable. The problem is not just that it is hard to blame someone who is not convinced that one more protest march will matter all that much, or that a traditional class party is no longer an appropriate means to emancipatory ends. It is also that many revolutions have turned out very badly for the very people they were supposed to redeem. Not that there is nothing to learn or admire in the revolutionary politics of the past, but it takes a particularly sanguine—one might even say revisionist—historical perspective to defend the trajectory of the Soviet or Maoist experiments, for example.

Yet the idea that revolution is a thing of the past is complete anathema to others on the Left, and for equally good reasons. For them, the shadow of currently looming disasters (endless war, climate change and environmental degradation, accelerating concentrations of wealth and de-democratization, and so on), the disavowal of the resources of the past before a future that seems to have no history leads to two political errors, both tempting but untenable. The first is the belief that the past has no resources from which to draw at this daunting moment. If it sometimes appears that history is of no use, its movements ultimately no more than a rearranging of the deck chairs on a planetary Titanic, part of my goal is to show that this is not true or at least need not be true. The second mis-step is that in rejecting its own history—which depends only tendentially on chronology—the Left is too easily tempted to excuse itself from political complicity in the fact that the available options are so unsatisfactory. While those of us in "opposition" to the current order—whatever that may mean, and it can clearly mean a lot of different things—seem increasingly willing to accept partial responsibility for the "state we are in," we rarely understand our complicity is perhaps partly bound up in, if not entirely reducible to, a renunciation of the Left's revolutionary heritage.[43] It may be that what has "gone wrong" is due not only to revolutionary failures, but to our own inability or unwillingness to follow through on the revolutionary promise.

Wendy Brown once wrote of the need to overcome what she called (after Walter Benjamin) "Left melancholy," the "sorrow, rage, and anxiety about broken promises and lost compasses that sustain our attachments to left analyses and left projects." That effort, she says,

> demands a spirit that embraces the notion of a deep and indeed unsettling transformation of society rather than one that recoils at this prospect, even as we must be wise to the fact that neither total revolution nor the automatic progress of history will carry us toward whatever reformulated vision we might develop. What political hope can we nurture that does not falsely ground itself in the notion that "history is on our side" or that there is some inevitability of popular attachment to whatever values we might develop as those of a new left vision? What kind of political and economic order can we imagine that is neither state-run nor utopian, neither repressive nor libertarian, neither economically impoverished nor culturally gray? How might we draw creative sustenance from socialist ideals of dignity, equality, and freedom, while recognizing that these ideals were conjured from historical conditions and prospects that are not those of the present?[44]

I would contend that while Keynesianism usually falls far short of this critical spirit, it is nevertheless the thread that ties the Left to its often knee-jerk Keynesian sensibility that allows us to identify it. If the task of the Left is to maintain the struggle for a transformed "political and economic order," that project must be Keynesian insofar as it embraces impossibility, hope, and fear as inescapable elements of both politics and the future toward which we hurtle. There is no denying the fact that we will never get it finally and perfectly right, that there is no "solution" and no historically ordained agent, like the proletariat, that will necessarily light or lead the way. Consequently, we will much of the time be terrified of what might be just around the corner. To deny this seems the purest folly. Necessity and freedom are not, except in an ultimately meaningless one-sided abstraction, separable, just as Hegel attests. The only realizable practice of freedom must involve a recognition of necessity, and the only realizable practice of collective freedom—the lived experience of freedom in a social world, which is surely what freedom always must be—depends upon recognizing and providing the necessaries that ensure a dignified, secure, and joyful life for all, regardless of their individual "contribution." The fact that scarcity in the straightforward hunger-and-shelter sense will, in the ecologically nonsensical world capitalism has wrought, increasingly impinge upon that practice of freedom is undeniable. Green capitalism or any other promissory cure-all will not open a hidden escape-hatch through which we can exit the labyrinth. No revolutionary doctrine, Marxist or otherwise, can guarantee us deliverance, either. That is not a reason not to pursue revolutionary thought and action—indeed, it "*cannot be relinquished*" because the injustice that solicits it remains—but it is a reason to remain critically skeptical of guarantees.[45]

This Keynesian sensibility is, however, Marxian insofar as radical politics in the rich world, partly in and through the refusal of Keynesianism's Eurocentrism, will have no choice but to focus increasingly on necessity. It must, because it will be impelled to, build a foundation upon which radicalism (in its truest, from-the-roots sense) can grow. This will be, as Gramsci recognized all efforts must be, a stuttering scramble up the scree slope of history, accelerated no doubt by environmental pressures. If not, then however frantic the conditions, radicalism will pose as it so often seems to: as a shrill lesson from the "universal class" of revolutionaries, who can see the Truth and know the Way.[46] That is a political dead-end, a true disaster, and we need the room, the courage, and the wisdom to say it without thereby affirming the calamitous and unjust present or some technocratic mitigation of its terribleness. If that takes us to revolution, then fair enough. We will have hacked a clearing in which to gather for what comes next.

The radical kernel at the heart of Keynesianism, which Keynes and even Hegel could never see, lies here, in the refusal either to throw out or to cling desperately to what we have, but to admit those things "we simply do not know." Keynesianism's bourgeois dialectic stutters on its dependence upon the experts or elites to find a safe haven, however temporary: "something will turn up." A radical Keynesianism refuses this also, but it does not pretend or have the temerity to claim we need a bit of divine violence to knock us out of the rut we are in. No one "needs" violence, and surely not (à la Sorel or Žižek) "on principle." We need a new world, certainly. But we also must think about what we want to rescue, if anything, from the world we have; I cannot imagine there is nothing at all.

12. Keynesian Political Economy and the Problem of Full Employment

1 Donald Moggridge, *Keynes*, London: Macmillan, 1976, 121.

2 Robert Skidelsky, *John Maynard Keynes, 1883–1946: Economist, Philosophy, Statesman*, London: Pan Macmillan, 2003, 708–10.

3 William Beveridge, *Full Employment in a Free Society*, London: George Allen & Unwin, 1944. The quotation is from *Shirley* (1849), Brontë's novel of the Luddite movement. In full, it succinctly describes Hegel's rabble: "Misery generates hate: these sufferers hated the machines which they believed took their bread from them: they hated the buildings which contained those machines: they hated the manufacturers who own those buildings."

4 John Garraty, *Unemployment in History: Economic Thought and Public Policy*, New York: Harper & Row, 1978; Clair Brown, "Unemployment Theory and Policy, 1946–1980," *Industrial Relations* 22: 2, 1983, 164–85; Geoff Mann, "Unemployment," in Eric Arneson (ed.), *Encyclopedia of U.S. Labor and Working Class History*, vol. 3, New York: Routledge, 2007, 1399–1403.

5 This is not to ignore the fact that many outside the industrial-capitalist "West" also engaged with Keynes, Raúl Prebisch perhaps most prominently; see his *Introducción a Keynes* (México: Fondo de Cultura Económica, 1947, 8): "At its core, Lord Keynes's thesis is simple and categorical. The tendency to chronic unemployment is a product of the very wealth of major industrialized communities. *Laissez-faire*, the spontaneous interplay [*juego espontáneo*] of economic forces, is incapable of solving the problem, because there is a serious adjustment problem in the system" (my translation).

6 G. W. F. Hegel, *Elements of the Philosophy of Right*, trans. H. B. Nisbet, Cambridge: Cambridge University Press, 1991, §245; Beveridge, *Full Employment*, 15. A quarter century later, Joan Robinson wrote of the rabble, rich and poor: "The worst part of heavy unemployment was not the waste of potential wealth (and … its removal has not been achieved mainly by avoiding waste) but the rotting of individual lives, the damaged self-respect, the desperate egoism and cringing fear on one side and the smug self-deception on the other"; Robinson, "Latter Day Capitalism," *New Left Review* I: 16, 1962, 37.

7 On the reserve army of labor, see Karl Marx, *Capital*, vol. 1, New York: Vintage, 1977, 784: "a surplus population of workers is a necessary product of accumulation or of the development of wealth on a capitalist basis, this surplus population also becomes, conversely, the lever of capitalist accumulation, indeed it becomes a condition for the existence of the capitalist mode of production. It forms a disposable industrial reserve army, which belongs to capital just as absolutely as if the latter had bred it at its own cost."

On the natural rate of unemployment, see the founding text, Milton Friedman, "The Role of Monetary Policy," *American Economic Review* 58: 1, 1968, 8: "The 'natural rate of unemployment,' in other words, is the level that would be ground out by the Walrasian system of general equilibrium equations, provided there is imbedded in them the actual structural characteristics of the labor and commodity markets, including market imperfections, stochastic variability in demands and supplies, the cost of gathering information about job vacancies and labor availabilities, the costs of mobility, and so on."

8 Robert Skidelsky, *Keynes: The Return of the Master*, London: Penguin, 2010, 102.

9 Robinson, "Latter Day Capitalism," 41.

10 *Time*, December 31, 1965. Friedman later wrote a letter to *Time* (February 4, 1966) to correct what he (quite reasonably) felt was misquotation. What he actually said was this: "In one sense, we are all Keynesians now; in another, nobody is any longer a Keynesian."

11 Kenneth Arrow, *Social Choice and Individual Values*, 2nd ed., New Haven: Cowles Foundation and Yale University Press, 1963. (The first edition appeared in 1951.) Arrow actually called it the "general possibility theorem," but since his conclusion—that the theorem proved a social welfare function as he defined it is not possible (p. 60)—it has become known as the "impossibility theorem."

12 It is worth noting that the impossibility of the social welfare function proceeds from it "being required to satisfy certain natural [logical] conditions"; Ibid., 2, 23. See also Amartya Sen, "Rationality and Social Choice," *American Economic Review* 85: 1, 1995, 1–24; Kenneth Arrow and Gérard Debreu, "Existence of an Equilibrium for a Competitive Economy," *Econometrica* 20, 1954, 265–90. The general equilibrium framework is sometimes called "Arrow-Debreu" or "A-D" in honor of Arrow and his coauthor Debreu.

13 Sen, "Rationality and Social Choice," 1; compare with Norman Schofield, "Power, Prosperity and Social Choice: A Review," *Social Choice and Welfare* 20, 2003, 85–118.

14 Anthony Atkinson and Joseph Stiglitz, *Lectures on Public Economics*, Princeton: Princeton University Press, 2015,

254.

15 Arrow, *Social Choice and Individual Values*, 59, 72.

16 Ibid., 73. Later, Arrow makes explicit the connection between Kantian morality and the impossibility theorem (pp. 82–83). Hegel is never mentioned—although we might speculate as to why—but ultimately Arrow concludes that neither the consensus of autonomous individual wills (Kant) nor "ethical absolutism" (Rousseau) can provide an adequate basis for "social ethics" (pp. 84–85). In his enormously influential *A Theory of Justice*, John Rawls took Arrow's work as a serious challenge to his liberal theory of justice, and it unsurprisingly forced him to consider Keynes. See John Rawls, *A Theory of Justice*, Cambridge: Harvard University Press, 1971, 258–84, 298–300.

17 Paul Samuelson, "A Pure Theory of Public Expenditure," *Review of Economics and Statistics* 36: 4, 1954, 387–89. "Primary social goods" is the liberal philosopher John Rawls's term for those goods that a rational person wants whatever else he or she wants. Rawls's categories are less materialist than the examples I propose here: "rights and liberties, opportunities and powers, income and wealth" and "a sense of one's self worth"; Rawls, *A Theory of Justice*, 92. I take this as evidence of his commitment to liberalism, that is, to prioritize abstract moral "goods" over earthly necessity, come hell or high water.

18 Paul Samuelson, "Arrow's Mathematical Politics," in Sidney Hook (ed.), *Human Values and Economic Policy*, New York: New York University Press, 1967, 41–52. Since "Keynesian economics" is by definition macroeconomics, the phrase "Keynesian microeconomics" would seem oxymoronic to economists, who instead speak of the "microfoundations" of Keynesian economics. See, for example, Gregory Mankiw and David Romer, "Introduction," in Gregory Mankiw and David Romer (eds.), *New Keynesian Economics, vol. I: Imperfect Competition and Sticky Prices*, Cambridge: MIT Press, 1991, 16. The question of "microfoundations" is discussed further in Chapter 13.

19 Amartya Sen, "Rational Fools: A Critique of the Behavioral Foundations of Economic Theory," *Philosophy and Public Affairs* 6: 4, 1977, 317–44.

20 Philip Mirowski, *Never Let a Serious Crisis Go to Waste: How Neoliberalism Survived the Meltdown*, London: Verso, 2013, Chapter 2; James Buchanan and Gordon Tullock, *The Calculus of Consent: The Logical Foundations of Constitutional Democracy*, Ann Arbor: University of Michigan Press, 1962, Chapter 3. If this position recalls Margaret Thatcher's famous dictum "there's no such thing as society," it is because Buchanan and Tullock (like Thatcher) were Hayekians. They would also have agreed with the fuller statement: "there's no such thing as society. There are individual men and women and there are families. And no government can do anything except through people, and people must look after themselves first." The quote is from an interview with *Women's Own* magazine, published October 31, 1987.

21 Keynes, *CW*, VII, 213.

22 Amartya Sen, "The Possibility of Social Choice" (Nobel Lecture, December 8, 1998), *American Economic Review* 89: 3, 1999, 350.

23 Norman Schofield, "Social Orders," *Social Choice and Welfare* 34, 2010, 510.

24 Arrow, *Social Choice and Individual Values*, 59; Allan Gibbard, "Manipulation of Voting Schemes: A General Result," *Econometrica*, 41, 1973, 587–601; Jean-Jacques Laffont and David Martimort, *The Theory of Incentives: The Principal-Agent Model*, Princeton: Princeton University Press, 2002, Chapter 1.

25 Arrow's Hayekian critic James Buchanan wrote a book with Richard Wagner entitled (not unjustifiably) *Democracy in Deficit: The Political Legacy of Lord Keynes* (Indianapolis: Liberty Fund, 1977).

26 George Feiwel, "Kalecki and Keynes," *De Economist* 123: 2, 1975, 164–97; Don Patinkin, *Anticipations of the General Theory? And Other Essays on Keynes*, Chicago: University of Chicago Press, 1982, 62–63; Michał Kalecki, *Selected Essays on the Dynamics of the Capitalist Economy: 1933–1970*; Cambridge: Cambridge University Press, 1971, vii; Michał Kalecki, "A Macrodynamic Theory of Business Cycles," *Econometrica* 3, 1935, 327–44; Robinson, "Latter Day Capitalism," 39; Eprime Eshag, "Kalecki's Political Economy: A Comparison with Keynes," *Oxford Bulletin of Economics and Statistics* 39, 1977, 1–6.

27 Suzanne de Brunhoff, *The State, Capital, and Economic Policy*, London: Pluto, 1978, 75–79. This is not to deny that his work in the early 1930s was much closer to Marxism. If he had stopped writing in 1934, rather than three decades later, we would justifiably remember him as basically a Marxist; P. Kriesler and B. McFarlane, "Michał Kalecki on Capitalism," *Cambridge Journal of Economics* 17, 1993, 219–20.

28 Michal Kalecki, *Theory of Economic Dynamics: An Essay on Cyclical and Long-Run Changes in Capitalist Economy*, London: Allen and Unwin, 1954, 17; on Keynes's neglect of monopoly, see Paul Sweezy, "The First Quarter Century," in Robert Lekachman (ed.), *Keynes' General Theory: Reports of Three Decades*, New York: St. Martin's Press, 1964, 309.

29 Kalecki, *Theory of Economic Dynamics*, 18. He does note that sometimes the degree of monopoly can fall in a recession, driven by "cut-throat competition."

30 Kalecki, *Theory of Economic Dynamics*, 30, 159.

31 Michał Kalecki, "A Theory of the Business Cycle," in Jerzy Osiatynski (ed.), *Collected Works of Michał Kalecki*, vol. I, Oxford: Clarendon Press, 1991, 554.

32 Kalecki, *Theory of Economic Dynamics*, 11, 46.

33 Kalecki, *Theory of Economic Dynamics*, 50–55, 73, 88; Michał Kalecki, "Observations on the Theory of Growth," in Jerzy Osiatynski (ed.), *Collected Works of Michał Kalecki*, vol. II, Oxford: Clarendon Press, 1991, 434; Keynes, *CW*, VII, 184–85.

34 Kalecki, *Theory of Economic Dynamics*, 123–25. For those interested in some technical detail, the coefficient is represented (in old-fashioned math, à la Keynes) as $\frac{a}{1+c}$, where a is the proportion of savings reinvested, and c is the accumulation of capital equipment (Keynes's "investment"). When the business cycle reaches its peak, the downturn in the

cycle is initiated "because the coefficient $\frac{a}{1+c}$ is less than 1, which reflects the negative influence upon investment of the increasing capital equipment ($c > 0$) and also, possibly, the factor of incomplete reinvestment of saving (if $a < 1$). If there were a full reinvestment of saving ($a = 1$) and if the accumulation of capital equipment could be disregarded (if c were negligible) the system would be maintained at its top level. But, in fact, the accumulation of capital equipment, which with a stable level of economic activity makes for a falling rate of profit, does have a tangible adverse effect on investment (c is not negligible). Moreover, the reinvestment of savings may be incomplete ($a < 1$). As a result, investment declines and thus the slump is started" (125–26).

35 Ibid., 126, 131. This dynamic is akin to the problem monetary policy-makers sometimes call "pushing on a string." It is easier to influence economic activity negatively (by tightening policy and "slowing" the economy) than it is to stimulate by loosening it. Raising interest rates has an immediate "pinch," whereas in conditions of dormant animal spirits, lowering rates will not necessarily have as ready an impact on investment behavior. Indeed, as almost a decade of basically zero interest rates suggests (beginning in 2008), it can sometimes have almost no impact at all.

36 Stephen Marglin, *Growth, Distribution, and Prices*, Cambridge: Harvard University Press, 1984, 79; Stephen Marglin, "Growth, Distribution, and Inflation: A Centennial Synthesis," *Cambridge Journal of Economics* 8, 1984, 120–21.

37 Michał Kalecki, "Political Aspects of Full Employment" [1943], in *The Last Phase in the Transformation of Capitalism*, New York: Monthly Review Press, 1972, 75.

38 Ibid., 76–77.

39 The political stakes in this debate have not diminished one bit since Kalecki's time. Witness, for example, the recent controversy surrounding the work of Carmen Reinhart and Kenneth Rogoff, two of austerity's greatest champions, which proposed a 90 percent sovereign debt-to-GDP ratio as basically a threshold beyond which lies capitalist disaster. This claim, which circulated widely among policy-makers, has since been debunked by Thomas Herndon and colleagues. See Carmen M. Reinhart and Kenneth Rogoff, "Growth in a Time of Debt," *American Economic Review* 100: 2, 2010, 573–78; Thomas Herndon, Michael Ash, and Michael Pollin, "Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff," *Cambridge Journal of Economics* 38, 2014, 257–79.

40 Kalecki, "Political Aspects of Full Employment," 78.

41 Ibid., 76.

42 Ibid., 78. Beveridge makes exactly the same point in *Full Employment in a Free Society*, 22: "Under conditions of full employment, if men are free to move from one employment to another and do not fear dismissal, may not some of them at least become so irregular and undisciplined in their behaviour, as to lower appreciably the efficiency of industry?"

43 Kalecki, *Theory of Economic Dynamics*, 94–95.

44 Ibid., 161.

45 Keynes, *CW*, VII, 322.

46 Kalecki, "Political Aspects of Full Employment," 80; Beveridge, *Full Employment in a Free Society*, 198. For a recent statement-*cum*-admission of this perspective, see David Rothkopf, "Free-Market Evangelists Face a Sad and Lonely Fate," *Financial Times*, February 1, 2012: "21st-century capitalism will look less and less like the economic Darwinism celebrated on Wall Street."

47 Kalecki, "Political Aspects of Full Employment," 79.

48 Kalecki, "Political Aspects of Full Employment," 79. "One of the basic functions of Nazism was to overcome the reluctance of big business to large-scale government intervention … Today government intervention has become an integral part of 'reformed' capitalism. In a sense the price of this reform was the Second World War and the Nazi genocide which were the final effect of the heavy rearmament that initially played the role of stimulating the business upswing"; Kalecki, "The Fascism of Our Times" [1964], in *The Last Phase in the Transformation of Capitalism*, New York: Monthly Review Press, 1972, 100.

49 Lawrence R. Klein, *The Keynesian Revolution*, 2nd ed., New York: Macmillan, 1966, 167 (emphasis added).

50 Keynes, *CW*, VII, 381.

51 Alan Ryan, *The Making of Modern Liberalism*, Princeton: Princeton University Press, 2012, 63–90.

52 Kalecki, "Political Aspects of Full Employment," 79–80: "The fascist system starts from the overcoming of unemployment, develops into an 'armament economy' of scarcity, and ends inevitably in war."

53 Ibid., 83, 82.

54 Włodzimierz Brus, "Preface," in Michał Kalecki, *The Last Phase in the Transformation of Capitalism*, New York: Monthly Review Press, 1972, 61–62.

13. The (New) Keynesian Economics of Equilibrium Unemployment

1 John R. Hicks, "Mr Keynes and the Classics: A Suggested Interpretation," *Econometrica* 5, 1937, 147–59; John R. Hicks, *Value and Capital*, Oxford: Clarendon, 1939.

2 Alvin H. Hansen, *A Guide to Keynes*, New York: McGraw-Hill, 1953.

3 Keynes wrote to Hicks, "I found it very interesting and really have next to nothing to say by way of criticism"; Letter of March 31, 1937, in Keynes, CW, XIV, 79.

4 Today, *IS-LM* analysis uses the next-period real interest rate on the vertical axis, assuming that higher output in the current period will lead to lower interest rates in the next period (because higher income will lead to greater investment and thus reduce the return to capital).

5 *Y* represents both income and output because they are assumed to be equal. If it is assumed all output finds a buyer, the nominal value of output in the economy is equal to all the spending in the economy, and that spending comprises the

entire economy's income.

6 The equation of money demand and liquidity preference is arguably another move in classical economics' attempt to excise the novelty of *The General Theory*. The motive for liquidity here loses entirely any trace of the "fetish" Keynes attributed to it and becomes perfectly amenable to absorption into the orthodox theory of the interest rate, so-called "loanable funds" (the interest rate is determined by the supply and demand for existing or "loanable" savings). Given that this became one of the principal points of controversy among economists, and Keynes's insistence that the two theories were very different, it is surprising to many that he did not squash it immediately. See, for example, Josef Steindl, "J. M. Keynes: Society and the Economist," in *Economic Papers*, London: Macmillan, 1990, 292.

7 D. E. Moggridge, *Keynes*, London: Macmillan, 1976, 174.

8 For a thorough review from the perspective of an important proponent of *IS-LM*, see Don Patinkin, "On Different Interpretations of *The General Theory*," *Journal of Monetary Economics* 26, 1990, 205–43.

9 In *AS-AD* models, the *IS-LM* framework determines the *AD* schedule. Like the *IS* and *LM* curves, the *AD* curve is described by a set of consecutive equilibrium points determined, in this case, by *IS-LM*.

10 Tily accuses "most economists" of taking Keynes's faint praise as "sufficient grounds to ignore his [Keynes's] work entirely"; Geoff Tily, *Keynes Betrayed:* The General Theory*, the Rate of Interest and "Keynesian" Economics*, London: Palgrave Macmillan, 2010, 251.

11 Paul Samuelson, "A Brief Survey of Post-Keynesian Developments," in Robert Lekachman (ed.), *Keynes' General Theory: Reports of Three Decades*, New York: St. Martin's Press, 1964, 341.

12 Hyman P. Minsky, *John Maynard Keynes*, New York: Columbia University Press, 1975, 32–37; Moggridge, *Keynes*, 164–66; Walter S. Salant, "The Spread of Keynesian Doctrines and Practices in the United States," in Peter A. Hall (ed.), *The Political Power of Economic Ideas: Keynesianism Across Nations*, Princeton: Princeton University Press, 1989, 27–52; Albert O. Hirschman, "How the Keynesian Revolution Exported from the United States and Other Comments," in Peter A. Hall (ed.), *The Political Power of Economic Ideas: Keynesianism Across Nations*, Princeton: Princeton University Press, 1989, 347–60.

13 See, for example, the most popular graduate macroeconomics textbook in the English-speaking world, now in its fourth edition: David Romer, *Advanced Macroeconomics*, 4th ed., New York: McGraw-Hill, 2011, Chapter 7.

14 Nicholas Kaldor, "The Irrelevance of Equilibrium Economics," *Economic Journal* 82: 328, 1972, 1237–55; Joan Robinson and John Eatwell, *An Introduction to Modern Economics*, New York: McGraw-Hill, 1973, 47; Tily, *Keynes Betrayed*.

15 Minsky, *John Maynard Keynes*, 55.

16 For example, the "loanable funds" theory of the interest rate, which Keynes argued he had corrected with liquidity-preference theory; Lawrence R. Klein, *The Keynesian Revolution*, 2nd ed., New York: Macmillan, 1966, 100; John Maynard Keynes, "Alternative Theories of the Rate of Interest," *Economic Journal* 47: 186, 1937, 241–52, in *CW*, XIV, 201–15.

17 Alan Auerbach and Laurence Kotlikoff, *Macroeconomics: An Integrated Approach*, 2nd ed. Cambridge: MIT Press, 1998, 205.

18 For a systematic dismemberment of *IS-LM* and related orthodoxy, see Minsky, *John Maynard Keynes*, 19–66. Late in life, Hicks did admit that his model was more misrepresentation than simplification; see John Hicks, "Some Questions of Time in Economics," in A. M. Tang, F. M. Westfield and J. S. Worley (eds.), *Evolution, Welfare, and Time in Economics*, Lanham, MD: Lexington Books, 1976, 140–41.

19 See, for example, the enormously influential formulation of the neoclassical synthesis in Don Patinkin, *Money, Interest, and Prices: An Integration of Monetary and Value Theory*, 2nd ed., New York: Harper & Row, 1965. Patinkin writes: "Equilibrium means full employment, or equivalently, unemployment means disequilibrium … Keynesian economics is the economics of unemployment *dis*equilibrium" (328, 337–38). This is another version of the common orthodox claim that Keynesian economics is "Depression economics," only useful in a slump and no good for "normal" times. Of course, to call this "disequilibrium economics" makes little sense. For economists, equilibrium is a condition toward which markets "naturally" tend, and Keynes argued that the equilibria toward which they tend are often or almost always below full employment. The claim that anything less than full employment is in "disequilibrium" thus goes directly against the "economics of Keynes." It is worth noting, however, that while some working this vein of economics endorsed *IS-LM*, others rejected it. See, for example, Don Patinkin, "In Defence of IS-LM," *PSL Quarterly Review* 43: 172, 1990, 119–34; and Axel Leijonhufvud, "What Was the Matter with IS-LM," in J. P. Fitoussi (ed.), *Modern Macroeconomic Theory*, Oxford: Blackwell, 1983, 64–89.

20 Keynes always denounced as bunk the tacit orthodox or classical assumption that "the public's readiness to save is independent of the amount of its real income—a man's time preference is a psychological propensity which is irrespective of whether he is rich or poor, so that at a given rate of interest his real savings will be the same irrespective of the amount of his real income." This issue became central to the so-called Cambridge controversy of the 1960s—essentially an extended argument between Keynesians in the United States (MIT and Harvard in Cambridge, Massachusetts) and the United Kingdom (Cambridge University). Keynes, "Professor Pigou on Money Wages in Relation to Unemployment," *Economic Journal* (December 1937), in *CW*, XIV, 264.

21 Robert Skidelsky, *Keynes: The Return of the Master*, London: Penguin, 2010, 101.

22 For example, Herbert Stein, *The Fiscal Revolution in America*, Chicago: University of Chicago Press, 1969; Byrd Jones, "The Role of Keynesians in Wartime Policy and Postwar Planning," *American Economic Review* 62: 1/2, 1972, 125–33; Salant, "The Spread of Keynesian Doctrines"; Roger Backhouse and Mauro Boianovsky, *Transforming Modern Macroeconomics: Exploring Disequilibrium Microfoundations, 1956–2003*, Cambridge: Cambridge University Press, 2013.

23 This is notable, for example, in the economic staff and advisors with whom Presidents Clinton and Obama

surrounded themselves, many of whom are more-or-less neoclassical synthesis-variety Keynesians, for example, Alan Blinder, J. Bradford DeLong, Gregory Mankiw, Carl Shapiro, Joseph Stiglitz, and John Taylor.

24 Paul Krugman, "Why We're in a New Gilded Age," *New York Review of Books*, May 8, 2014.

25 The "Volcker shock" or "coup" is the popular term for the period 1979–1982, when the United States' Federal Reserve, chaired by Paul Volcker, drove interest rates up in an all-out assault on inflation and (for all intents and purposes) organized labor and the working class in general. Inflation fell from 15 percent in 1980 to less than 3 percent in 1983. It is sometimes seen as the big-bang moment of neoliberalism in the United States. Volcker has recently been a key advisor on financial regulation to President Obama. His proposals for greater regulatory oversight and the reintroduction of some Keynes-era banking rules have received significant attention. He has recently written a very complimentary introduction to a 2016 edition of Keynes's *Economic Consequences of the Peace* (New York: Skyhorse).

26 Carl Shapiro and Joseph Stiglitz, "Equilibrium Unemployment as a Worker-Discipline Device," *American Economics Review* 74, 1984, 433–44; republished in Gregory Mankiw and David Romer (eds.), *New Keynesian Economics, vol. 2: Coordination Failures and Real Rigidities*, Cambridge: MIT Press, 1991, 123–42 (page numbers refer to the latter). The continued influence of the Shapiro–Stiglitz model is evident in its central place in the chapter on unemployment in Romer's *Advanced Macroeconomics* textbook (pp. 421–32); see note 14, this chapter.

27 Stephen Marglin, *Growth, Distribution, and Prices*, Cambridge: Harvard University Press, 1984.

28 Wolfgang Streeck, "The Crises of Democratic Capitalism," *New Left Review* II: 71, 2011, 9.

29 Shapiro and Stiglitz, "Equilibrium Unemployment," 138–39.

30 Ibid., 126.

31 Dan Ariely, *Predictably Irrational: The Hidden Forces That Shape Our Decisions*, New York: Harper Collins, 2008; Anthony Atkinson and Joseph Stiglitz, *Lectures on Public Economics*, Princeton: Princeton University Press, 2015, xiv.

32 As Samuel Bowles points out in an influential 1985 paper, published a year after Shapiro–Stiglitz, models like theirs "provide a microeconomic foundation consistent with Kalecki's suggestion that sustained full employment and the long-run survival of capitalist enterprise may be inconsistent"; see "The Production Process in a Competitive Economy: Walrasian, Neo-Hobbesian, and Marxian Models," *American Economic Review* 75: 1, 1985, 26. Bowles goes on to make the crucial point that a Marxian approach would require a radically different "labour extraction function" than the "Neo-Hobbesian" models with which he groups Shapiro–Stiglitz. For the Marxist, it is not labor per se that is a strict disutility, but labor in the social relations specific to capitalism. In other words, in any given labor process, the relative degree to which workers will commit to working and not shirking is not merely exogenously given by human nature, as Shapiro–Stiglitz and Kalecki and Keynes assume, but is endogenous to the production process and the social relations of production more broadly: "A more democratic structure of decision making and a more egalitarian distribution of the firm's net revenues, for example, might both reduce the incentive to pursue nonwork activities and heighten the cost of so doing by enlisting fellow workers as more effective enforcers of the pace of work, or more willing cooperators with the surveillance system" (p. 33). Kalecki is not a Marxian on these grounds, but rather marks one end of the Keynesian spectrum (see Chapter 12).

33 Stiglitz summarizes the "fundamental insight of information economics" as follows: it views "the neoclassical model as one that makes a particular assumption: that prices affect only quantities, and that prices carry no information which might affect incentives or sorting"; Joseph Stiglitz, "Post Walrasian and Post Marxian Economics," *Journal of Economic Perspectives* 7: 1, 1993, 109.

34 Oliver Williamson, *Markets and Hierarchies: Analysis and Antitrust Implications*, New York: Free Press, 1975, 31.

35 The contract literature comes out of the seminal work on the theory of the firm, in particular Ronald Coase, "The Nature of the Firm," *Economica* 4: 16, 1937, 386–405, that eventually informed the so-called New Institutional Economics. For a rather technical introduction, see Bernard Salanié, *The Economics of Contracts: A Primer*, Cambridge: MIT Press, 1997. For a broad survey of recent work, see Philippe Aghion and Richard Holden, "Incomplete Contracts and the Theory of the Firm: What Have We Learned Over the Past 25 Years?" *Journal of Economic Perspectives* 25: 2, 2011, 181–97.

36 The respective literatures are usually traced to (in the case of regulation) Ronald Coase, "The Problem of Social Cost," *Journal of Law and Economics* 3, 1960, 1–43; (in the case of the employment contract) Armen Alchian and Harold Demsetz, "Production, Information Costs and Economic Organization," *American Economic Review* 62: 5, 1972, 777–95; and (in the case of insurance) Michael Rothschild and Joseph Stiglitz, "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information," *Quarterly Journal of Economics* 90, 1976, 629–49. For detailed overviews of this approach to political economy, see Jean-Jacques Laffont and Jean Tirole, *A Theory of Incentives in Procurement and Regulation*, Cambridge: MIT Press, 1993; Allan Drazen, *Political Economy and Macroeconomics*, Princeton: Princeton University Press, 2000; and Torsten Persson and Guido Tabellini, *Political Economics: Explaining Economic Policy*, Cambridge: MIT Press, 2000.

37 As noted earlier, although it is not always flagged explicitly, the premise of much radical political economy is that workers' labor *in a capitalist mode of production* is a pure disutility. It could be otherwise.

38 Shapiro and Stiglitz, "Equilibrium Unemployment," 126.

39 Kalecki too assumes that without fear of being fired, workers will become unruly, a form of shirking.

40 Shapiro and Stiglitz, "Equilibrium Unemployment," 123.

41 Ibid., 124. A Pareto optimal distributional arrangement is one in which any change will make at least one party worse off. At the risk of stating the obvious, neither social or collective value nor concern for the inequality of allocation is factored into this calculus. If there is $1 million to be distributed between two parties, a situation in which one has every one of those million dollars and the other has none is Pareto optimal. Any change will make one party less well-off. This is a small part of why Sen echoes Arrow in his article, "The Impossibility of a Paretian Liberal," *Journal of Political Economy* 78: 1, 1970, 152–57.

42 Nicholas Xenos, “Liberalism and the Postulate of Scarcity,” *Political Theory* 15: 2, 1987, 225–43.

43 Shapiro and Stiglitz, “Equilibrium Unemployment,” 127–28.

44 Ibid., 127: “The key market variable that determines individual firm behavior is V_u, the expected lifetime utility of an unemployed worker.”

45 Ibid., 130. The “critical wage” is defined by $\hat{w} \geq \bar{w} + e + \frac{e(a+b+r)}{q}$; where the critical wage $\hat{w}$ will be greater the higher the unemployment benefit, $\bar{w}$, the larger the required effort *e*, the higher the job acquisition rate *a*, the higher the quit rate *b*, the higher the interest rate *r*, and the smaller the detection probability *q*.

46 Ibid., 129.

47 Ibid., 131.

48 Keynes, *CW*, VII, 280–81; see the summary of Chapter 20 in the *Companion*.

49 Keynes claims that the employment function can “relate the amount of effective demand, measured in terms of the wage-unit, directly to a given firm,” but it seems to me impossible to imagine how it might do so; *CW*, VII, 280.

50 Shapiro and Stiglitz, “Equilibrium Unemployment,” 133.

51 Keynes, *CW*, VII, 291.

52 Shapiro and Stiglitz, “Equilibrium Unemployment,” 131 (emphasis added).

53 The qualitative shift in a quantity like the wage is a function of what I have elsewhere called the “politics of measure”; see Geoff Mann, *Our Daily Bread: Wages, Workers and the Political Economy of the American West*, Chapel Hill: University of North Carolina Press, 26–28.

54 Shapiro and Stiglitz, “Equilibrium Unemployment,” 134.

55 Keynes, *CW*, VII, 5.

56 Shapiro and Stiglitz, “Equilibrium Unemployment,” 135.

57 Ibid., 125; John Maynard Keynes, “The General Theory of Employment,” *Quarterly Journal of Economics* 51: 2, 1937, 213; Keynes, *CW*, VII, 353.

58 Domenico Losurdo, *Liberalism: A Counter-History*, trans. G. Elliott, London: Verso, 2011, 184–88; Shapiro and Stiglitz, “Equilibrium Unemployment,” 126.

59 Steindl, “J. M. Keynes,” 291.

60 Shapiro and Stiglitz, “Equilibrium Unemployment,” 131.

61 Shapiro and Stiglitz, “Equilibrium Unemployment,” 135. In the post–World War II Keynesian heydays, it was accepted that the state’s efforts to optimize efficiency—through the provision of the (Pareto optimal) amount of public goods—will be unaffected by income redistribution, if it takes place through lump-sum taxes and transfers. Both allocation (efficiency) and distribution are assumed to proceed on Keynesian terms, that is, respective state institutions allocate “on the assumption of full employment of resources and that the proper distribution of income has been secured,” and distribute assuming “a full-employment income is available for distribution and that the satisfaction of public wants is taken care of.” The claim was famously formulated by Richard Musgrave, *The Theory of Public Finance: A Study in Public Economy*, New York: McGraw-Hill, 1959, Chapter 1. Musgrave understood that in practice, this separation was often unlikely to work, as later argued in Arthur Okun, *Equality and Efficiency: The Big Trade-Off*, Washington, DC: Brookings Institution, 1975; see Richard Musgrave, “U. S. Fiscal Policy, Keynes, and Keynesian Economics,” *Journal of Post–Keynesian Economics* 10: 2, 1987–88, 171–72. Both Musgrave (who coined the term “macroeconomics”) and Okun were influential Keynesian economists.

62 Shapiro and Stiglitz, “Equilibrium Unemployment,” 138.

63 Ibid., 139.

64 Maximilien Robespierre, June 16, 1790, *Oeuvres Complètes*, vol. VI, Paris: Presses Universitaires de France, 1910, 410 (emphasis added).

14. From Unemployment to Inequality in the Twenty-First Century

1 Data from the Economic Research Division of the St. Louis Federal Reserve, available at research.stlouisfed.org.

2 *Inside Job* (2011), dir. Charles Ferguson; *Inequality for All* (2013), dir. Jacob Kornbluth; Richard Wilkinson and Kate Pickett, *The Spirit Level: Why Greater Equality Makes Societies Stronger*, London: Bloomsbury, 2009; Joseph Stiglitz, *The Price of Inequality: How Today’s Divided Society Endangers Our Future*, New York: W. W. Norton, 2012. We should also include in these developments the awarding of the 2015 Nobel Prize in economics to Angus Deaton—the author of *The Great Escape: Health, Wealth and the Origins of Inequality*, Princeton: Princeton University Press, 2015. Even Occupy Wall Street, the movement that coined the phrase “We are the 99 percent,” is at least partly caught up in this. It was not organized by the poor, but by middle-class students (who else reads *Adbusters*?), not as an anti-poverty movement, but an anti-debt and anti-inequality movement. This is not to say that every movement is not similarly complex, nor is it to say that I do not support Occupy, but it seems to me essential to recognize the fraught nature of current oppositional politics reflected in the obsession with inequality.

3 And Hegel would note that just as Marx’s *Capital* did in 2008 (*Wall Street Journal*, November 6, 2008), Jean-Jacques Rousseau’s *Discourse on the Origin of Inequality* is “moving units” again!

4 Thomas Piketty, *Capital au XXI^{e} siècle*, Paris: Seuil, 2013; translated by Arthur Goldhammer as *Capital in the Twenty-First Century*, Cambridge MA: Harvard University Press, 2014. Citations refer to the French original (my translations).

5 Lawrence Summers, “The Inequality Puzzle,” *Democracy: A Journal of Ideas* 33.

6 Dani Rodrik, “Piketty and the Zeitgeist,” Project Syndicate, 2014, and Kenneth Rogoff, “Where is the Inequality Problem?” 2014, both available at: project-syndicate.org; Slavoj Žižek, “Slavoj Žižek comments on Thomas Piketty’s ‘Le Capital au XXIe siècle’,” 2014, available at: criticatac.ro; Richard Epstein, “The Piketty Fallacy,” 2014, available at:. hoover.org.

7 David Harvey, “Afterthoughts on Piketty’s Capital,” 2014, from his blog Reading Marx’s Capital with David Harvey; James Galbraith, “*Kapital* for the Twenty-First Century?” *Dissent*, Spring 2014; Paul Krugman, “Why We’re in a New Gilded Age,” *New York Review of Books*, May 8, 2014; J. Bradford DeLong, “The Right’s Piketty Problem,” 2014, Project Syndicate; Robert Solow, “Thomas Piketty is Right,” *New Republic*, April 22, 2014.

8 Piketty, *Capital*, 215, 348, 365.

9 Ibid., 16, 28, 368.

10 Ibid., 65.

11 Keynes, *CW*, VII, 30, 215, 217. In other words, scarce enough to produce a rabble; the rabble is a product of the fallacy of composition inherent in competitive (“individualistic”) capitalism, and the condition in which it coalesces is the same condition necessary for profit. The rabble is the “unintended” consequence of the organization of life by the rule of value.

12 Piketty, *Capital*, 336.

13 See, for example, Ibid., 266, 288, 319, 568, 769.

14 Ibid., 47; see also 114, 145, 159, 272, 674, 772.

15 See, for example, Ibid., 63, 103, 156, 583, 769, 863.

16 Ibid., 55.

17 Although Keynes does not state it so explicitly and formally as Piketty, this simple inequality is just as central to *The General Theory* as $r > g$ is to *Capital in the Twenty-First Century*. As he put it in late 1934: “So long as there is serious all-round unemployment I consider this proves that the equilibrium rate of interest is lower than the ruling rate”; *CW*, XXI, 345.

18 Piketty, *Capital*, 879.

19 Keynes, *CW*, XVI, 132.

20 Here I set aside the fact that in contrast to Keynes’s explicitly expectational definition of *MEC*, Piketty does not define g as a function of capital’s expectations. His emphasis throughout on a radical Keynesian uncertainty implies it, however, and his belief that modern monetary policy can “anchor perceptions, expectations and hierarchies in monetary benchmarks,” while today associated with “neoliberal” orthodoxy, is in fact a logical extension of Keynes’s emphasis on the role of the state in maintaining the state of confidence. As Keynes said, money is “above all, a subtle device for linking the present to the future … we cannot even begin to discuss the effect of changing expectations on current activities except in monetary terms”; Piketty, *Capital*, 179; Keynes, *CW*, VII, 294.

21 Ibid., 207.

22 Keynes, *CW*, XIV, 206.

23 Piketty, *Capital*, 82, 85, 84 (emphasis added).

24 Which would confirm Fredric Jameson’s judgment of Deleuze as the unwitting creature of postmodern capitalism’s eternal present in *A Singular Modernity: Essay on the Ontology of the Present*, London: Verso, 2002, 194–95.

25 Piketty, *Capital*, 672; Keynes, *CW*, XIX, part 2, 846.

26 Keynes himself, along with most of his friends, was of course a rentier. Perhaps this is why he chose “euthanasia” over “elimination” or “assassination.”

27 Piketty, *Capital*, 187.

28 Ibid., 942.

29 Keynes, *CW*, VII, 376.

30 Piketty, *Capital*, 565, 675.

31 Ibid., 215.

32 Keynes, *CW*, VII, 294.

33 When asked “Would you on general grounds be in favour of any kind of tax on capital?” Keynes responded: “The best way of doing that is by increasing the income tax on ‘investment income’ … I believe that, if you want to relieve current effort and to tax more heavily past accumulation, the way to do that is to increase the tax on what used to be called unearned income, and is now called investment income” (*CW*, XIX, part 2, 846; see also *CW*, XVII, 359, and *CW*, XVIII, 72).

34 Keynes, *CW*, XIX part 2, 841; *CW*, XVIII, 72.

35 Piketty, *Capital*, 840, 600.

36 Ibid., 56, 391.

37 Ibid., 23.

38 Keynes, *CW*, VII, 374; Piketty, *Capital*, 44.

39 Which is to say that neoliberalism was made possible by the (Hegelian) “passage” through Keynesianism.

40 The increase in interest rates was accompanied by Reagan’s massive tax cut of 1981, which reduced government revenue by a third, and quintupled the US federal budget deficit by 1985. Richard Musgrave describes this as the moment the “most drastic Keynesian move (excepting only World War II) was undertaken under its most anti-Keynesian label”; Richard Musgrave, “U. S. Fiscal Policy, Keynes, and Keynesian Economics,” *Journal of Post–Keynesian Economics* 10: 2, 1987–88, 180.

41 Arguably, this ideological work is another way in which World War II made Keynesianism politically viable.

42 Keynes, *CW*, XXVIII, 28.

43 Paul Samuelson, *Foundations of Economic Analysis*, 3d ed., Cambridge: Harvard University Press, 1955, 590, 809.

44 Piketty, *Capital*, 566; see also p. 414.
45 Ibid., 671, 673.
46 Keynes, *CW*, VII, 308.
47 Piketty, *Capital*, 709.
48 Ibid., 752.
49 Ibid., 842, 840. For an account of an attempt to impose such a tax at the local scale, see Robin Harding, “Property: Land of Opportunity?,” *Financial Times*, September 24, 2014.
50 Piketty, *Capital*, 843.
51 Keynes, *CW*, VII, 378; Piketty, *Capital*, 850.
52 Ibid., 857 n.1, 856.
53 Ibid., 848.
54 Ibid., 415.
55 Ibid., 63, 672.
56 Karl Marx, “Contribution to a Critique of Hegel’s Philosophy of Law” [1843], *Marx-Engels Collected Works*, vol. III, New York: International Publishers, 1973, 29: “Democracy is the genus Constitution … Democracy is content and form.”
57 Carl Schmitt, “The Way to the Total State” [1933], in *Four Articles, 1931–1938*, Corvallis, OR: Plutarch Press, 1999, 1–18; Giovanni Arrighi, *Adam Smith in Beijing: Lineages of the Twenty-First Century*, New York: Verso, 2007.
58 Moreover, while these models serve as tools of economic or policy “analysis,” they are nonetheless always social theories.
59 Indeed, Piketty’s praise adorns the cover of one of the latest revivals of Keynes, Peter Temin and David Vines, *Keynes: Useful Economics for the World Economy*, Cambridge: MIT Press, 2014.
60 Compare with Slavoj Žižek, *In Defense of Lost Causes*, London: Verso, 2008, 184.
61 Karl Marx and Friedrich Engels, “Manifesto of the Communist Party” [1847], *The Revolutions of 1848: Political Writings*, vol. 1, New York: Verso, 2010, 94. This is what Arendt calls the “communistic fiction” at the heart of “liberal economics”; Hannah Arendt, *The Human Condition*, Chicago: University of Chicago Press, 1958, 43–44, 44 n.36; compare with Gunnar Myrdal, *The Political Element in the Development of Economic Theory*, trans. Paul Streeten, Cambridge: Harvard University Press, 1954.
62 James Galbraith, “Keynes, Einstein, and the Scientific Revolution,” *American Prospect*, Winter 1994; Roger Backhouse, “Samuelson, Keynes, and the Search for a General Theory of Economics,” *Italian Economic Journal* 1: 1, 139–53.
63 Thomas Frank, *What’s the Matter with Kansas? How Conservatives Won the Heart of America*, New York: Metropolitan Books, 2004; Serge Halimi, “What’s the Matter with West Virginia?” *Le Monde Diplomatique*, October 2004.
64 “[T]he important point is that one can hope that democratic deliberation in general leads in the direction of common sense [*bon sens*]”; Piketty, *Capital*, 878.
65 Hegel, *PhR*, §303.
66 For which the economy was to be not so much an object of governance as an instrument of transformation.

15. Revolution After Revolution?

1 “If Europe does not change its ways—if it does not reform the eurozone and repeal austerity—a popular backlash will become inevitable”; Joseph Stiglitz, “Europe’s Lapse of Reason,” Project Syndicate, January 8, 2014; Martin Wolf, “Disarm Our Doomsday Machine,” *Financial Times*, May 27, 2014.
2 Anne Case and Angus Deaton, “Rising Morbidity and Mortality in Midlife Among White, Non-Hispanic North Americans,” available at: princeton.edu/main/news/archive.
3 Hegel, *PhR*, §245 (emphasis in original); see also Jürgen Habermas, “Appendix I: Popular Sovereignty as Procedure,” in *Between Facts and Norms: Contributions to a Discourse Theory of Law and Democracy*, trans. William Rehg, Cambridge: MIT Press, 1998, 474: “The welfare state was the innovation that democratized—and thereby stabilized—capitalism in the twentieth century”; Dani Rodrik, “Labor Saving Technology,” Project Syndicate, 2015; Angus Deaton, “Rising deaths among white middle-aged Americans could exceed Aids toll in US,” 2015, available at: theguardian.com.
4 Keynes, *New Statesman & Nation*, November 10, 1934, in CW, XXVIII, 34.
5 Slavoj Žižek, *In Defense of Lost Causes*, London: Verso, 2008, 158: Žižek says “decaffeinated” means “1789 without 1793.”
6 Tracy Strong, “Foreword,” in Carl Schmitt, *The Concept of the Political*, trans. George Schwab, Chicago: University of Chicago Press, 2007, xxvi.
7 Terry Pinkard, *Hegel: A Biography*, Cambridge: Cambridge University Press, 2000, 418–25.
8 John Maynard Keynes, “Economic Possibilities for Our Grandchildren,” in *CW*, IX, 373. An internet search of this phrase will reveal how often this passage is cited and the remarkable extent to which it is mobilized by environmental science and its advocates in support of technocratic independence in the organization of everything from carbon mitigation to geoengineering.
9 On the way this undemocratic dynamic plays out in the monetary arena, for example, see Geoff Mann, “The Monetary Exception: Labour, Distribution, and Money in Capitalism,” *Capital and Class* 37: 2, 2013, 196–215.
10 Domenico Losurdo, *Hegel and the Freedom of Moderns*, Durham: Duke University Press, 2004, 237; Hannah Arendt, *The Human Condition*, Chicago: University of Chicago Press, 1958, 29. One of the more extreme variations on this excision of the economic from popular sovereignty is the libertarian argument for a “constitutional economics” by the likes of James

Buchanan and Gordon Tullock of the "public choice school" (see Chapter 12). Although one might imagine that to suggest something is "constitutional" is to prioritize its political valence, "constitutional economics" would encode the mode of economic management—in this case, strict *laissez-faire* and neo-monetarism—into a nation-state's constitution, effectively removing it from debate because constitutions are very difficult to alter. Chicago School legend Robert Lucas has proposed something similar: for "efficient" monetary policy, "one must either permit an initial government to make decisions binding for all time … or restrict available strategies still further"; in other words, a policy rule that makes future policy changes impossible. James Buchanan, "The Domain of Constitutional Economics," *Constitutional Political Economy* 1: 1. 1990. 1–18; Robert Lucas, "Principles of Fiscal and Monetary Policy," *Journal of Monetary Economics* 17, 1986, 128.

11 Norman Schofield, "Social Orders," *Social Choice and Welfare* 34, 2010, 513–14; Norman Schofield, "Power, Prosperity and Social Choice: A Review," *Social Choice and Welfare* 20, 2003, 85–118. To take the history of Spain as a case study, see F. D. Klingender, *Goya in the Democratic Tradition*, London: Sidgwick and Jackson, 1948, 198–205; Robert Hughes, *Goya*, New York: Knopf, 2004, 274–328; Brendon Westler, "Between Tradition and Revolution: The Curious Case of Francisco Martínez Marina, the Cádiz Constitution, and Spanish Liberalism," *Journal of the History of Ideas* 76: 3, 2015, 393–416. It is no accident that Goya's despair is a common way for Keynesians to make sense of Spanish history. If Hegel had been a painter, he might have been Goya.

12 Keynes, "Some Economic Consequences of a Declining Population," *Eugenics Review* (April 1937), in *CW*, XIV, 132. Keynes's Malthusian interest in population—which he was certain was about to stabilize and then decline slightly, kept him interested in eugenics.

13 Antonio Negri, "Keynes and the Capitalist Theory of the State post-1929" [1968], in *Revolution Retrieved: Writings on Marx, Keynes, Capitalist Crisis and New Social Subjects*," London: Red Notes, 1988, 32–33.

14 Armin Beverungen, Anna-Maria Murtola and Gregory Schwartz, "The Communism of Capital?" *ephemera: theory and politics in organization* 13: 3, 2013, 484.

15 Peter Drucker, *Post-Capitalist Society*, New York: HarperBusiness, 1993; Slavoj Žižek, *Violence*, New York: Picador, 2008, 17–19. The flip side of the liberal communist coin is what Phillip Blond dubs a "Red Tory communitarianism," a liberal break with big business, a regulatory attack on monopoly, and support for worker-ownership, etc., in the interests of a "property-owning democracy"; "Rise of the Red Tories," *Prospect Magazine*, February 2009.

16 Paolo Virno, *A Grammar of the Multitude: For an Analysis of Contemporary Forms of Life*, trans. I. Bertoletti, J. Cascaito, and A. Casson, New York: Semiotext(e), 2004.

17 Negri, "Keynes and the Capitalist Theory of the State," 9.

18 Ibid., 21.

19 Ibid., 24–25.

20 Ibid., 21.

21 Ibid.

22 Ibid., 10, 13.

23 Ibid., 28.

24 Ibid., 12.

25 For example, see Charles Maier, *Recasting Bourgeois Europe: Stabilization in France, Germany, and Italy in the Decade After World War I*, Princeton: Princeton University Press, 1975.

26 Negri, "Keynes and the Capitalist Theory of the State," 13, 25.

27 Ibid., 10, 13, 19.

28 Maier, *Recasting Bourgeois Europe*, 1.

29 Joseph Schumpeter, *Capitalism, Socialism and Democracy*, New York: Harper & Row, 1942, 138. Carl Schmitt celebrates Hegel for capturing the nature of the bourgeois as "essentially apolitical and in need of security"; Carl Schmitt, "Hegel and Marx," *Historical Materialism* 22: 3–4, 2014, 390.

30 G. W. F. Hegel, *Political Writings*, Cambridge: Cambridge University Press, 1999,150. This was written between 1798 and 1802, a few years before the *Phenomenology of Spirit*, whose famous lordship-bondsman dialectic is clearly foreshadowed here. Reading the dialectic with this in mind lends some support for Alexandre Kojève's influential lectures on Hegel in the 1930s, in which lordship and bondage stand in for the bourgeoisie and the proletariat; Alexandre Kojève, *Introduction to the Reading of Hegel: Lectures on the* Phenomenology of Spirit, trans. James Nichols, Ithaca, NY: Cornell University Press, 1980.

31 Theodor Adorno, *Hegel: Three Studies*, trans. Sherry Weber Nicholsen, Cambridge: MIT Press, 1993, 48.

32 Maurice Merleau-Ponty, "An Epilogue to *Adventures of the Dialectic*," in Ted Toadvine and Leonard Lawlor (eds.), *The Merleau-Ponty Reader*, Evanston, IL: Northwestern University Press, 2007, 304.

33 Gallup, "Fewer Americans Identify as Middle Class in Recent Years." 2015.

34 US Department of Commerce, Economics and Statistics Division, *Middle Class America* (Executive Summary), Washington, DC: US Department of Commerce, 2010.

35 Keynes, *CW*, IX, 258.

36 Jürgen Habermas, *Legitimation Crisis*, trans. Thomas McCarthy, Boston: Beacon Press, 1975, 22.

37 Habermas, "Popular Sovereignty," 478.

38 Keynes, *CW*, XXVIII, 61.

39 Like all Keynesianisms, in an age of crisis Green Keynesianism appeals to a wide range of otherwise seemingly incompatible political positions. See, for example, Edward Barbier, *A Global Green New Deal: Rethinking the Economic Recovery*, Cambridge: Cambridge University Press, 2010; Susan George and Walden Bello, "A New, Green, Democratic Deal," *New Internationalist*, no. 419, 2009; Martin Sandbu, "This Shouldn't Be Difficult," *Financial Times*, November 30,

2015.

40 For more on this assessment of the political implications of climate change, see Joel Wainwright and Geoff Mann, “Climate Leviathan,” *Antipode* 45: 1, 2013, 1–22; and Wainwright and Mann, “Climate Change and the Adaptation of the Political,” *Annals of the Association of American Geographers* 105: 2, 2015, 313–21.

41 Žižek, *In Defense of Lost Causes*, 157–210; Žižek, *Violence*, 178–217; Žižek, *Living in the End Times*, Afterword, and elsewhere. Žižek’s defense of what he once glibly named *Linksfascismus*, “left fascism,” is a strange and mostly, as far as I can tell, merely provocative sensationalism. His insistence on the simultaneously macho and monastic issue of Terror—of the demand to cull the “traitor” to the revolution, to commit to the logic of minoritarian Truth, to never fear death—is always qualified, parenthesized, and complicated by un-explained references to Lacanian terminology, as if everyone has just re-read the Seminars last week. I have no idea where the embrace of “divine violence” is supposed to go, what is supposed to happen, or who we might expect to still be standing, if anyone, once we have made the “Leap of Faith” (only the Just? the Mighty?). In this same *salto mortale* vein, Žižek is fond of quoting Alain Badiou’s “*mieux vaut un désastre qu’un désêtre*” (better a disaster than the “dis-being” of “eventless utilitarian-hedonist survival” in which the rest of us live), but again, it hardly seems to matter, which is probably good for those upon whom *désastre* might actually descend (it is unlikely to be Žižek or Badiou). See also Alan Johnson, “The Power of Nonsense,” *Jacobin* 3–4, 2012.

42 Habermas, “Popular Sovereignty,” 467, 471.

43 This is, I would suggest, a more productive direction in which to elaborate a Left self-critique than that proposed by Slavoj Žižek in his *In Defense of Lost Causes*, 175–76: “What this means is that, even if—or, rather, especially if—one submits the Marxian past to ruthless critique, one has first to acknowledge it as ‘one’s own,’ taking full responsibility for it, not to comfortably reject the ‘bad’ side of things by attributing it to a foreign element (the ‘bad’ Engels who was too stupid to understand Marx’s dialectics, the ‘bad’ Lenin who did not grasp the core of Marx’s theory, the ‘bad’ Stalin who spoilt the noble plans of the ‘good’ Lenin, and so on).”

44 Wendy Brown, “Resisting Left Melancholy” *boundary 2* 26: 3, 1999, 26–27.

45 Domenico Losurdo, *War and Revolution: Rethinking the 20th Century*, trans. Gregory Elliott, London: Verso, 2015.

46 Maurice Merleau-Ponty, *Humanism and Terror*, trans. John O’Neill, Boston: Beacon Press, 1969 [1947], 9: “Revolutionary honor is itself only a species of bourgeois dignity.”