

MARXIAN AND KEYNESIAN CRITIQUES OF NEOLIBERALISM

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NEOLIBERALISM HAS LOST much of its political legitimacy and nearly all its popular appeal during the last decade. Apologias of privatization, fiscal restraint, high interest rates, capital account liberalization, trade union-bashing and other policies overtly associated with the neoliberal reforms are in retreat. After sailing triumphantly to world domination in the eighties and nineties, neoliberalism has become a political liability. Its strident rhetoric has grown tired, and no longer brings votes – quite the contrary; neoliberal platforms must now be disguised. The political shrivelling of neoliberalism has been especially evident since the East Asian crises and the collapse of the dot.com bubble. The corruption scandals that came to light under Bush II have helped to unmask the regressive nature of the neoliberal project and its organic links with the reconstitution of US imperialism. The political retreat of neoliberalism is startlingly evident in any reputable bookshop: the number of titles purporting to defend the neoliberal reforms has declined precipitously both in quality and in market appeal, while a large number of critical works have become available to growing numbers of readers.¹

In spite of these political defeats, neoliberalism continues to be not only the dominant economic policy, but also the dominant modality of social and economic reproduction in most countries. It could easily be argued that the economic grip of neoliberalism is becoming stronger even as its political legitimacy wanes. This disconnect is examined below, through a specific angle: the sources, significance and political implications of the Keynesian and Marxist critiques of neoliberalism. These are important questions for readers of the *Register* for two reasons. First, and quite obviously, Marxist theory loses much of its relevance if it is disconnected from political action. Clarification of the differences between Marxian and rival interpretations of neoliberalism can help to strengthen the former and enhance its political

relevance and mass appeal. Second, the argument developed below suggests that neoliberalism is a resilient system of accumulation which will neither collapse spontaneously, nor be dislodged simply through the workings of the electoral process. Mass action remains the essential lever for social transformation in the age of neoliberalism. However, neoliberalism has transformed the modalities of reproduction of the working class and the scope for independent working-class action. New forms of political participation need to be found, and new modes of organization developed, in order to challenge its dominance.

KEYNESIANISM AND NEOLIBERALISM

In neoclassical economic theory and in neoliberal rhetoric, capitalist ('market') economies spontaneously gravitate towards full employment and the most efficient use of resources, unless the adjustment path is blocked by market imperfections. These imperfections can include misguided government policies, trade union activity, peculiarities of the industrial structure or technology, and a whole host of 'distortions' which, ultimately, separate the real world from the mirage conjured up by the apologists of unbridled capitalism.

One of the most significant intellectual achievements of John Maynard Keynes was his alternative conceptualization of the capitalist macroeconomy. For Keynes, the aggregate level of output and employment is limited by aggregate demand (subject to capacity limits). If demand is insufficient, for example because of adverse profit expectations on the part of the investors, or because the state fails to adopt sufficiently proactive fiscal and monetary policies, firms will reduce production and employment. This could trigger a recession from which the economy may not emerge spontaneously. Conversely, if aggregate demand is excessive, output will eventually hit capacity limits, leading to inflation and balance of payments deficits.

Keynes developed this fundamental insight in the midst of the Great Depression. It led him to believe that, in an advanced capitalist economy, the level of activity could stabilize at any level of unemployment. If there is no spontaneous tendency towards full employment, the economy can find itself lumbered with high unemployment indefinitely, at great economic and social

cost. This may also lead to political instability. Keynes's reasoning offers a sharp break with the logic and the policy implications of neoclassical economics. It suggests that government intervention is essential to stabilize the economy at the desired level of unemployment, which should not be too high (to avoid needless deprivation) or too low (because of the possibility of inflation). Keynes believes that the government can secure full employment and low inflation simultaneously if it fine-tunes aggregate demand using fiscal, monetary and incomes policy instruments (for example, adjusting the level and structure of taxation and government spending, fiddling with interest rates, regulating industrial relations, and so on).

Inspired by Keynes, economists developed an impressive technical and institutional apparatus that enabled the Western economies to avoid a repetition of the Great Depression. Relative economic – and, therefore, social and political – stability has been a lasting triumph of Keynesianism. Keynesians claim that their preferred policies were largely responsible for the postwar 'golden age', when most capitalist countries experienced high growth rates, near-full employment, rising income levels and unprecedented levels of social integration. But Keynesianism has been in retreat since at least the mid-seventies. The neoliberal transformations in the US, the UK and elsewhere have reversed significant aspects of the Keynesian consensus, for example, through the large-scale privatization of productive state assets, reduced tolerance for trade union activity, and the reintegration/subordination of the working class through policies of high unemployment, low economic growth, concentration of assets and income, and the partial rollback of the welfare state. The Keynesian consensus is long gone. Contemporary capitalism has shifted, instead, towards specific modalities of economic, social and political reproduction associated with neoliberalism.

Keynesian economists typically account for the retreat of Keynesianism in terms of two key processes.² First, the success of Keynesian management during the postwar era was so complete that it seemed that the problems of income distribution and mass unemployment in the advanced economies had been resolved once and for all. With the disappearance of the most obvious symptoms of poverty and inequality, and the seemingly irreversible stabilization of capitalism, many people became convinced that Keynesian policies, institutions and economic management were no longer needed. Second,

Keynesians and relatively left-wing British post-Keynesians. The latter were traditionally based at the University of Cambridge, where Keynes, Sraffa, Joan Robinson and their disciples once taught. The Cambridge Faculty of Economics is today viciously neoclassical. It is easier for a camel to stray into the White House than for a non-mainstream economist to be hired at Cambridge. These divisions among Keynesians hinged, to a large extent, on their differing theories of income distribution. US Keynesians were generally committed to the neoclassical theory of distribution based on the marginal product of labour (which was accepted by Keynes himself) which implied that the existing distribution of income in a competitive economy is fundamentally fair – governments need only tinker with distribution at the margins, and real wage flexibility can raise the level of employment. These policy conclusions were rejected by British post-Keynesians, for whom the distribution of income depends primarily on institutional variables and power relations. US Keynesians also focused much more narrowly on short-run economic management, in which a stable environment is important to foster business confidence, while UK Keynesians tended to focus on long-term dynamic stabilization and the amelioration of entrenched inequalities. The theoretical conflicts among Keynesians contributed to their growing paralysis and, ultimately, made it impossible for a clear Keynesian ideology to emerge and compete against the neoliberal rhetoric which became increasingly popular in the late sixties and seventies.

The internal disagreements among Keynesians became especially problematic when the world economy entered into a long downturn in the early seventies, which Keynesians could neither explain nor address adequately. In the end, their school of thought dissolved into confusion. Only five years separate Richard Nixon's 1971 statement that 'we are all Keynesians now' from Jim Callaghan's pathetic admission at the Labour Party Conference during the 1976 IMF crisis that 'We used to think that you could spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you in all candour that that option no longer exists'.

The retreat of Keynesianism opened the way to the neoliberal reforms, which Keynesians have always insisted can only lead to a significant rise in unemployment, a shift of the distribution of income and power towards business, and greater economic volatility. A Keynesian policy would instead

increase state economic intervention to rebalance the distribution of income and social power, provide public goods and services in greater abundance and promote systemic competitiveness and diffuse new technologies to secure higher saving and investment rates and stabilize aggregate demand.

A MARXIAN ALTERNATIVE

The Keynesian analysis of neoliberalism outlined in the previous section includes important insights and several appropriate policy proposals. However, it does not go far enough, or deep enough. For these reasons, it offers misleading hopes, three of which are examined here: the level of analysis, the problem of agency, and the role of the state and the scope for alternative economic policies.

1. Level of Analysis

The Keynesian account of the decline of the ‘golden age’ and the rise of neoliberalism outlined in the previous section is too abstract and indeterminate because it fails to contextualize the transformations in capitalist production and in economic and state institutions taking place between the mid-forties and the late seventies. Instead, the analysis focuses on horizontal distributive conflicts between rival social groups and between states. These conflicts include disputes between the US, Western Europe and Japan, and between governments and the private sector, between finance and industry, and between industrial capital and the workers. These conflicts are normally not explained in detail; they are usually merely described as disputes over shares of the national (or, in the case of states, global) income. This is insufficient because it bypasses completely the conditions of work and the distribution of power on the shopfloor and in society. In summary, Keynesian analyses tend to describe conflicts *around* the process of accumulation, while obscuring or ignoring completely conflicts *about* the nature of capitalist accumulation.³

Consequently, little explanation is offered of the crisis of profitability in the sixties and seventies, except that wages were too high. There is no significant attempt to incorporate into the analysis the anti-systemic social struggles taking place in the rich countries, or the socialist and anti-imperialist struggles in the poor countries. And there is not even token recognition

of the erosion of the political legitimacy of the capital relation in the sixties and seventies. Consequently, Keynesian analyses fail completely to realize that neoliberalism was a project of *recomposition* of the hegemony of capital under new conditions of accumulation.

Keynesians take the extraction of surplus value for granted: the cake must grow so everyone can have more. The rest is just a matter of detail: it is who gets more icing and how the crumbs are scattered, which can be discussed in a civilized manner whether in parliament, or in bilateral negotiations or through a social accord brokered by a 'neutral' state. Fundamentally, everyone can become happier at the same time. The need for social discipline in order to preserve the conditions for the production and accumulation of surplus value, and the necessity of legitimacy and social order for economic stabilization is completely obviated in Keynesian analyses.

What is missing in Keynesian analysis is a methodologically structured account of the nature of capitalist accumulation, and an explanation of its intrinsic instability. This is *not* because the future is unknown, or because of distributive conflicts in the sphere of exchange (both of which are trans-historical phenomena), but because of *radical uncertainty* in the sphere of production, which is created by conflicts over the extraction of surplus value under specific modalities of capitalist accumulation. Keynesians generally fail to explain why and how their preferred policies interacted with the process of accumulation between the forties and the seventies, how their interaction released forces that would render Keynesianism itself obsolete, and leave the field open to the advance of neoliberalism.

2. Agency

The second problem concerns agency. In Keynesian analyses of the economy the main determinant of collective action is narrow economic interest, whether it is located at the level of the individual or an interest group. These competing interests play against each other in an institutional context in which the state is both separated from society and the market, and intrinsically neutral, even if it can be temporarily captured by specific interest groups (including, for example, the rival neoliberal and Keynesian camps). This supports the Keynesian commitment to the transformative power of democracy, as the best way to remove the grip of neoliberalism and restore the conditions for stable growth and development.

But neoliberalism is not merely a set of economic and social policies, which can be easily replaced by an alternative set through the democratic process. Neoliberalism – just like the Keynesianism which it replaced – has a specific material basis.⁴ Neoliberalism combines an accumulation strategy, a mode of social and economic reproduction and a mode of exploitation and social domination based on the systematic use of state power to impose, under the ideological veil of non-intervention, a hegemonic project of recomposition of the rule of capital in all areas of social life. This project is guided by the current imperatives of the international reproduction of capital, which are represented most clearly by financial market interests and the global interests of US capital.

Under neoliberalism, domestic politics has become tightly constrained by the need to insulate the process of accumulation (the ‘market’) from popular demands, especially the imperative to control labour in order to secure international competitiveness. This has reduced drastically the scope for social policy, and led to higher unemployment and job insecurity in most countries. It has also created an income-concentrating dynamics of accumulation that can be limited, but not reversed, by marginal Keynesian interventions.

When viewed from this angle, the notorious inability of the neoliberal reforms to support high levels of investment or high GDP growth rates is really irrelevant. In any case, neoliberalism *has* been able to support much higher standards of consumption for the top strata of the population, due to its concentrating dynamics and its promotion of consumer debt. The Keynesian claim that the neoliberal reforms have increased the returns of financial capital at the expense of industry is also a red herring. For the purpose of the neoliberal reforms is not to promote growth, reduce inflation or even to increase the portfolio choices of the financial institutions. The *aim* of the neoliberal reforms is to subordinate local working classes and domestic accumulation to international imperatives, promote the microeconomic integration of circuits of capital, mediated by finance, and expand the scope for financial system control of the three main sources of capital in the economy: state finance, the domestic savings pool, and the linkages between domestic and foreign capital.

The transfer of the main levers of accumulation to international capital, mediated by tightly integrated US-led financial institutions, and regulated by US-controlled international financial organizations, has consolidated

the material basis of neoliberalism globally. The prominence of finance expresses the subsumption of sectoral capitalist interests by the interests of capital as a whole. In policy terms, it ensures that accumulation is no longer regulated by contingent sectoral coalitions, especially in the poor countries, but by the capitalist *class*.

Specifically, there can be no presumption that there is an ‘antagonistic’ relationship between production and finance under neoliberalism, and no expectation that industrial capital will ‘rebel’ against finance and push for the restoration of Keynesianism. Industrial capital has a stake in the neoliberal model, and it is structurally committed to its reproduction. The internationalization of the circuits of capital, and financial market control of state funding, have made investment and the realization of profits dependent on world market conditions and the interests of international capital. This would make any attempt to decouple from the neoliberal compact very costly indeed – this is an unattractive business proposition.

3. The Role of the State and the Scope for Economic Policy

The third problem concerns the role of the state and the scope for economic policy. In Keynesian analyses the state is disembedded from society, and a Keynesian government could rise above the sectional interests that have hijacked the state under neoliberalism in order to implement policies that are both more egalitarian, and more in tune with the interests of productive capital rather than finance.

This proposition is politically appealing but it is analytically flawed. If the state is disembedded from society, why should it select policies that maximize the rate of accumulation or employment generation, or avoid financial crises? In principle, anything goes; all that the progressive camp needs to do is get their electoral act together. But the state, and the institutions comprised within it, are shaped by technology and ideology, and by class relations, conflicts, and material interests. Under these complex circumstances, it is hopelessly naïve to expect that the social basis of the state can be transformed via the electoral process alone. Since neoliberalism has developed its own material basis, it cannot be undone simply through the electoral process.

The Keynesian prescription thus fails to realize that, given the strength of the material basis of neoliberalism, progressive policies will tend to consolidate and fine-tune the current order, rather than undermine it. For example,

open regionalism and liberal interventionism limit the scope for activist industrial and trade policies, membership of the IMF and the World Bank rule out the imposition of controls over finance and the balance of payments, and support for the WTO curtails the possibility of internalization of systems of provision, which is essential for macroeconomic stability and long-term sustainable growth. Since neoliberalism is the contemporary form of capitalism, stable accumulation has become synonymous with accumulation *under* neoliberalism. Any fundamental change to the dominant system of accumulation is *always* destabilizing. Such fundamental change is necessary – but it is going to be neither smooth nor costless.

CONCLUSION

A Marxist examination of the material basis of neoliberalism throws light on several limitations of Keynesianism. Two of these limitations are especially significant. First, Keynesians often argue that macroeconomic instability and frequent financial and balance of payments crises show that neoliberalism is fundamentally flawed. This is correct in exactly the same sense that, in the abstract, economic crises show that capitalism is a flawed mode of production. However, just as crises offer the opportunity to restore balance in capitalist accumulation, crises play a constructive – and even a *constitutive* – role under neoliberalism. They help to impose policy discipline on governments, and they compel both capitalists and workers to behave in ways that support the reproduction of neoliberalism. Perversely, economic and financial crises show that the system *works*, and they help to make it work more smoothly in the long-term. Second, it is widely known that most governments promising to introduce alternative policies have failed. These failures clearly show that transcending neoliberalism is difficult and costly. At a deeper level, they also show that moving away from, or beyond, neoliberalism is not primarily a subjective problem of selecting the ‘correct’ industrial, financial or monetary policies.

Transcending neoliberalism will involve both economic and political transformations that can be addressed only through the construction of an *alternative system of accumulation*. This project will require dismantling systematically the material basis of neoliberalism through a set of radically redistributive and democratic economic policy initiatives. These policies will

support a decisive shift to less unequal distributions of income, wealth and power, as a fundamental condition for democracy. These policy measures cannot be simply entrusted to government initiatives. They must be driven by a politically re-articulated working class, as one of the main levers for its own economic recomposition. The problem is that this virtuous circle cannot be wished into being. It requires the development of new structures of political representation corresponding to the mode of existence of the working class under neoliberalism, and supporting the development of new modalities of reproduction for this class. These achievements cannot be resolved theoretically or through purely conceptual analysis: they are political problems, to be addressed strategically in the process of struggle for the emergence of a new working-class movement for the age of neoliberalism.

NOTES

1. See, for example, D. Harvey, *The New Imperialism*, Oxford: Oxford University Press, 2005; D. Harvey, *A Brief History of Neoliberalism*, Oxford: Oxford University Press, 2005; D. Harvey, *Spaces of Global Capitalism: Towards a Theory of Uneven Geographical Development*, London: Verso, 2006; K.S. Jomo, ed., *Globalization under Hegemony: The Changing World Economy*, Oxford: Oxford University Press, 2006; K.S. Jomo and B. Fine, ed., *The New Development Economics after the Washington Consensus*, Oxford: Oxford University Press, 2006; R. Kiely, *Empire in the Age of Globalisation: US Hegemony and Neoliberal Disorder*, London: Pluto Press, 2005; R. Kiely, *The New Political Economy of Development: Globalization, Imperialism, Hegemony*, London: Palgrave, 2006; and J. Stiglitz, *Globalization and Its Discontents*, Harmondsworth: Penguin, 2003.
2. See, for example, T. Palley, *Keynesianism: What it is and why it still matters*, 2005, available from <http://www.thomaspalley.com>.
3. For additional details, see A. Saad-Filho, 'Monetary Policy in the Neoliberal Transition: A Political Economy Review of Keynesianism, Monetarism and Inflation Targeting', in R. Albritton, B. Jessop and R. Westra, eds., *Political Economy of the Present and Possible Global Futures*, London: Anthem Press, 2007.
4. See A. Saad-Filho, 'Introduction' in Saad-Filho, ed., *Anti-Capitalism: A Marxist Introduction*, London: Pluto Press, 2003; and A. Saad-Filho and D. Johnston, 'Introduction' in Saad-Filho and Johnston, eds., *Neoliberalism: A Critical Reader*, London, Pluto Press, 2005.