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TOWARD A POST-KEYNESIAN POLITICAL ECONOMY FOR THE 21ST CENTURY: GENERAL REFLECTIONS AND CONSIDERATIONS ON AN ERA RIPE FOR CHANGE

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From the 1970s onward, "progressive" economic policy in the advanced capitalist societies has been steadily losing ground to neoconservative economic actions and outlooks. By "progressive economics," I mean those policies aimed at establishing a regulated and mildly egalitarian form of capitalism through the use of government power. The ultimate aim of progressive economics is to raise the standard of living for average workers. Progressive economics should not be conflated with socialism. Progressive economics may be seen as representing an offshoot of the socialist tradition, but only under certain sociopolitical settings, as in the case, perhaps, of the Nordic countries. By "neoconservative economics," I mean those policies that promote deregulation of the economy and seek to shift the orientation of the state as far away as possible from redistribution and a socially-based agenda, and toward strengthening the interests of finance capital and the rich. We do not regard neoconservative economics as a natural offshoot of classical economics, but rather as a distinct 20th-century movement guided by antistatist views and an explicitly antilabor outlook.[1] This is the version of neoliberalism developed by Milton Friedman and the so-called

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Chicago School, and is usually associated with the Pinochet regime in Chile and later on with the free-market policies of Margaret Thatcher and Ronald Reagan (Jones 2012).

In the United States, the adoption of neoliberalism as an economic model coincides with the deindustrialization period, which undermined the economy's industrial base and undercut the power and influence of the labor movement, and was solidified during Reagan's years in power. It can be argued that, in the course of the 20th century, the United States has had only two administrations that pursued determinately progressive economic policymaking: those of Franklin Delano Roosevelt, with the New Deal programs, and of Lyndon Johnson, with the Great Society programs. In an interesting twist of history, Richard Nixon was perhaps the last "liberal" US president on the economic and social front.[2]

In Europe—save England, where Thatcher launched the neoliberal economic counterrevolution at about the same time Reagan was elected president—the shift occurs a bit later: around the mid-1980s in nations like Germany and France, and even a bit later in the peripheral countries of Europe like Greece and Spain. By the mid-1990s, most western European societies, with the exception of the Scandinavian countries, can be characterized in some way or another as being roughly neoliberal. The abrupt transition to neoliberal economic policymaking is enshrined in the 1992 Treaty of the European Union, also known as the Maastricht Treaty.

The story of the rise of neoliberalism has been told in countless ways and from myriad points of view in the course of the last 35 or so years. Still, oversimplifications of the actual meaning of neoliberalism abound and ideological biases often enough get in the way of lucid and dispassionate analyses.[3] In a way, this is because neoliberalism itself is more of an ideological construct than a solidly grounded theoretical approach or an empirically-derived methodology. In fact, the intellectual foundations of neoliberal discourse are couched in profusely vague claims and ahistorical terms. Notions such as "free markets," "economic efficiency," and "perfect competition" are so devoid of any empirical reference that they belong to a discourse on metaphysics, not economics. Essentially, neoliberalism reflects the rise of a global economic elite and is used mostly as an ideological tool to defend the interests of a particular faction of the capitalist class: that of finance capital.

The neoliberal transition in the world economy is associated, then, with the rise to dominance of financial capital and the sharp changes that occur in the social structure of capital accumulation, with developments in the US economy leading the way among advanced capitalist economies. The economic slowdown in the 1970s and the inflationary pressures that went along with the first major postwar systemic capitalist crisis created a window of opportunity for antistatist economic thinking, which had been around since the 1920s but was spending most of its time hibernating because it lacked support among government and policymaking circles and had very few followers among the members of the chattering classes. The postwar capitalist era was dominated by the belief that the government had a crucial role to play in economic and societal development. This was part of the Keynesian legacy, even though Keynesian economics was never fully and consistently applied in any capitalist country.

Industrial capitalism, the production of real goods and services for the benefit of all members of a society, required extensive government intervention; both as a means to sustain capital accumulation and as a way to ensure that the toiling population improved its standard of living so it could purchase the goods and services that its own members produced in the great factories of the Western industrial corporations. The rise of the middle class in the West took place predominantly in the first few decades after World War II and was an outcome brought about by the combination of a thriving Western capitalist industrial base and interventionist government policies. Governments and the industrial capitalist classes understood only too well that economic growth and social prosperity had to go hand in hand if the system of industrial capitalism was to survive. Maintaining "social peace," a long sought after objective of governments and economic elites throughout the world, mandated that the wealth of a nation actually trickled down to the members of the toiling population. The improvement of the working class's standard of living was essential to the further growth of industrial capital accumulation.

To be sure, it took at least a couple of centuries before industrial capitalism reached a stage where its own survival and future growth were predicated on a steady increase of living standards among a nation's general population. In postwar capitalist economies, providing the working class with the means for their reproduction meant increasingly improving their economic purchasing power and providing them with access to educational opportunities, so they could make a substantially greater contribution to productivity while also being turned into potential consumers. In all this, the government had a key role to play as it was the only agent with the capability of providing the opportunities and the resources needed for the materialization of a society of plenty; a society in which the fruits of labor were not the exclusive domain of the class that owned the means of production.

All this came to a rather abrupt end sometime around the mid-to-late 1970s, when advanced capitalism found itself in the grips of a major systemic crisis brought about by new technological innovations and declining rates of profit. The social structures of accumulation that had emerged after the Second World War began to dissolve. Policy shifted in the direction of unregulated markets as a means of overcoming the declining rate of profit, while the "welfare state" was in the process of being dismantled. In this context, the postwar regime of "managed capitalism" gave way to "unfettered markets," and a capital globalization process ensued that today encompasses virtually all economies in the world.

At the heart of the neoliberal vision is a societal and world order based on the prioritization of corporate power and free markets and the abandonment of public services. The neoliberal claim is that economies would perform more effectively, producing greater wealth and economic prosperity for all, if markets were allowed to perform their functions without government intervention. This claim is predicated on the idea that free markets are inherently just and can create effective low-cost ways to produce consumer goods and services. By extension, an interventionist or state-managed economy is regarded as wasteful and inefficient, choking off growth and expansion by constraining innovation and the entrepreneurial spirit.

However, the facts say otherwise. During the period known as "state-managed capitalism" (roughly from 1945–73, and otherwise known as the classical Keynesian era), the Western capitalist economies were growing faster than at any other time in the 20th century and wealth was reaching those at the bottom of the social pyramid more effectively than ever before. Convergence was also far greater during this period than it has been during the last 35 years of neoliberal policies. Moreover, under the neoliberal economic order, Western capitalist economies have not only failed to match the trends, growth patterns, and distributional effects experienced under "managed capitalism," but the "free-market" orthodoxy has produced a series of never-ending financial crises, distorted developments in the real economy, elevated inequality to new historical heights, and eroded civic virtues and democratic values. In fact, neoliberalism has turned out to be the new dystopia of the contemporary world.

Our era is ripe for change. Neoliberalism is politically and morally bankrupt, yet a new vision for economic policymaking in the 21st century has yet to be fully articulated, let alone become a convincing alternative to the neoliberal model. In this regard, post-Keynesian economics, especially of a more progressive nature than the one held by Keynes himself, on issues ranging from workers' participation, income distribution, sustainable development, and environmentally friendly policies, can be of vital importance in galvanizing public support for a new socioeconomic order. Contrary to radical neoliberal political discourse, the state has not disappeared under the process of globalization; nor has it become weaker. It has merely been refocused so it can perform activities more amenable to the needs and demands of the global financial elite. The state, as a social institution, does retain a certain degree of relative autonomy, and thus it can be recaptured by progressive forces determined enough to work toward the realization of a just and decent society, instead of standing idly by and watching elected public officials squander the common good (officials eager to get into office in order to serve big business interests so they can later pursue lucrative private sector roles).

The most critical issues facing advanced industrialized societies today are the power that finance capital exerts over the domestic economy and the social ills it frequently causes due to financial busts, financial scandals, and plain untamed greed. Finance capital is economically antiproductive (it does not create real wealth as such), socially parasitic (it lives off revenues produced in other sectors of the economy), and politically antidemocratic (it places constraints on the distribution of wealth, creates unparalleled inequality, and strives for exclusive privileges).

The future of Western liberal societies may very well depend on radical changes regarding the relationship between the state and finance capital, and the ways through which the public sector approaches development and employment. State power needs to be reaffirmed from the perspective of the advancement of a nation's general welfare, and thus must cease being a tool of finance capital and of the global economic elite. In order for that to happen, public discourse needs to be energized and involve the widespread participation of citizens and communities.

In this regard, a post-Keynesian approach to economic problems in the 21st century must entail the utilization of participatory democracy as an essential and irreducible factor in the design and materialization of a new socioeconomic order beyond global neoliberalism. For the truth of the matter is that the dominance of finance capital has caused severe blows not only to economic development as such but to democratic political culture and society as a whole (Gilens 2012). Democracy is at a stage of steep and long-term decline and the "general will" has been transformed into an exclusive privilege of the super-rich and powerful among us (Bartels 2008).

Finance capital should no longer be allowed to define the terms of the game on the basis of its own needs and interests, and should retreat into serving the needs of the real economy. The current levels of public and private debt are too big for a recovery to take place, and all future policies aimed at sustainable development are certain to fail if the issue of debt is not addressed, mainly through a huge write-down. Under the current levels of debt accumulated by most advanced industrialized societies, austerity will be increasingly seen as a necessary condition for economic stabilization, causing further economic decline and greater debt-to-GDP ratios in the end. In this manner, a major debt restructuring plan should be put on the public agenda of all industrialized economies around the world, along with the design of a new global financial architecture in the interests of the real economies and the economics of environmental sustainability and social development. All it takes is a vision and the taming of the aggressive, socially destructive pursuit of private interests.

As a brief and sketchy outline, a post-Keynesian economic policy of a distinctively progressive bent should center on the following principles:

(1) Capitalism is an inherently unstable socioeconomic system with a natural tendency toward crises, and thus must be regulated; especially the financial sector, which constitutes the most dynamic and potentially destructive aspect of capital accumulation.

(2) Banks, undoubtedly the most important institutions of the financial sector of the economy, are in essence social institutions and their main role or function should be to accept deposits by the public and issue loans. When banks fail, they should be nationalized without any hesitation and all attempts to socialize losses should be immediately seen for what they are: unethical and undemocratic undertakings brought about by tight-knit linkages between governments and private interests. In periods of crisis, the recapitalization of banks with public funds must be accompanied by the state's participation in banks' equity capital.

(3) Markets are socially designed institutions, and as such, the idea of the "free market" represents one of the most pervasive and dangerous myths of contemporary capitalism. From antiquity to the present, trade was based on contracts and agreement between government authorities and was spread through the direct intervention of the state. Human societies without markets cannot thrive. However, markets often enough function inefficiently (they create monopolies and oligopolies and cause externalities), and they cannot produce public goods in sufficiently large quantities to satisfy societal needs. Therefore, state intervention into markets is both a *social* need and a necessary *moral* obligation.

(4) The economic sphere does not represent an opposite pole from the social sphere. The aim of the economy is to improve the human condition, a principle that mandates that the process of wealth creation in any given society should not be purely for private gain but, first and foremost, for the support and enhancement of economic infrastructure and social institutions for further economic and social development; with the ultimate goal being the attainment of a decent standard of living for all citizens. Free education and health care must remain accessible to everyone, along with the right to a job. Guaranteed employment must therefore become a key pillar of a progressive economic policy in the 21st century.

(5) Workplace democracy must replace the current authoritarian trends embodied in most capitalist enterprises, and participatory economics (social ownership, self-managing workers, etc.,) should be highly encouraged and supported.

(6) The improvement of the quality of the environment (with key priorities being the protection and preservation of ecosystems in oceans and seas and the protection of forests and natural wealth, in combination with policies seeking to address the phenomenon of climate change) ought to be a strategic aim of a progressive economic policy, realizing that the urgency of environmental issues concerns, in the final analysis, the very survival of our own species.

The global economy is in trouble (Temin and Vines 2013). Indeed, the era of global neoliberalism, while still supreme, is fraught with serious problems and contradictions, as evidenced by both the recent global financial crisis and the inability of advanced economies to maintain steady growth and improve the condition of citizens. Global neoliberalism suppresses wages, increases inequality, and destroys the social fabric. It is a socioeconomic system in dire need of a replacement, and the responsibility falls clearly on progressive economics to chart a full-fledged alternative course.

Notes

1. Adam Smith, for one, whom neoconservatives all claim as one of their own, was a supporter of the French Revolution and of labor laws. Were Smith alive today, his attacks on the frivolous aristocrats who used regulation for their own benefit might have been extended to the power held by the Wall Street financial gang. Indeed, let us not forget that the same man who wrote the *Wealth of Nations* had previously written *The Theory of Moral Sentiments,* which was partly a critique of capitalism. Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations* was regarded as hogwash by some of his keenest supporters, especially the part about the origins of wealth and the emphasis on "free market" economics, but it was also seen as a most convenient ideological tool to be used against the kind of developments unfolding in France as a result of the Reign of Terror and in defense of the interests of the new capitalist class on the continent. Yet even in that rather ideologically loaded piece of work, Smith left no doubt what he thought of capitalists, emphasizing repeatedly their desire to manipulate prices. For an enlightening discussion of Smith's legacy, see Rothschild (1992; 2001). For a discussion of Smith's rather dishonest intellectual contours, see Perelman (2011).
2. While the distinction between "liberal" and "progressive" is not always obvious, a "progressive" administration is one which is explicitly committed to social values such as justice and equality and tends to rely more heavily on government power to steer the course of the economy and set the rules of corporate behavior. In juxtaposition, a "liberal" administration tends to favor the emergence of "consent" among competing parties (which in practice usually implies surrendering to the power of the dominant economic group) and uses a milder form of government intervention in guiding a nation's economy.
3. A rare exception is David Harvey's account of neoliberalism. See Harvey (2005).

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