

# Keynes reloaded? - Keynes and Climate Change

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**According to Karl Marx historic tragedies repeat as a farce. Considering, what is nowadays labelled as “Neo-Keynesianism” concerning the official crisis management of the bourgeois state, one gets the impression, that what Keynes intended originally, in fact is re-performed as a farce....**

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For more than thirty years they have been the urchins of bourgeois economics: the Keynesians. The market-radical school of the Mount-Pelerin-Society with such notorious people as Milton Friedman seemed to have triumphed over the classic Keynesians, the exponents of a governmental regulation of the (capitalist) economy, and the so-called “neo-Keynesianism”, born in 1980s, a school which combines the basic considerations of Keynes with the ideas of the so-called neoclassical school of economy [1], enjoying in the age of deregulation and almost religious belief in the mystic power of the “free market” at best a shadowy existence in the environment of desperate social democrats and trade unionists.

Now Keynes is again current throughout the land, and superficially it may look to the non-expert eye as if abruptly economic politicians of all shades, from East to West, have turned away from the market-radical course of the last 30 years, true to the motto “who cares about the nonsense I talked yesterday”, and rediscovered John Maynard Keynes. But hold on! If you take a closer look to the thought of Keynes, you will come to different conclusions.

## What were the intentions of Keynes?

In his main work [2] Keynes started from the viewpoint that conjuncture cycles can be considered most suitably “as the consequence of a cyclical change in the marginal efficiency of capital”. He identified aggregate demand as the central element for the level not only of production but also of employment and therefore rejected neoclassical theory, which argued that unemployment has to be fought by the lowering of wages. He argued, effectively, that the positive effects of the lowering of wages immediately would be foiled by the reduction of purchasing power.

Keynes wrote his main work, which was published in 1935, under the impact of a special historic situation: First there was the worldwide economic crisis of 1929 with all its consequences, second the rise of state-dictatorial economies like the Soviet Union, but also fascist Germany (Keynes was a

personal friend of the president of the German Reichsbank, Hjalmar Schacht), and third the course of the Roosevelt-government in the USA, which pragmatically integrated several Keynesian elements in its policy of restructuring, the so-called New Deal of the thirties. The theory of Keynes is undoubtedly intended on the one hand to avoid what he classifies as “authoritarian political systems”, and on the other to eliminate unemployment: “It is certain that the world will not tolerate the unemployment, which, aside from short periods of recovery – in my opinion unavoidably – is associated with the contemporary capitalist individualism, for much longer. But through a correct analysis of the problem it should be possible to heal the illness and to conserve at the same time capacity and freedom (which he denies the “authoritarian systems”, T.P.). [3]

He undoubtedly recognized the ruling social inequality, but he considered it as unavoidable: “I myself believe that significant inequalities of income and wealth are justified socially and psychologically, but not such big inequalities as exist nowadays.” [4] Consequently from his point of view the state through certain interventions should on the one hand ensure full employment and attenuation of the cycles of crisis and on the other limit inequalities of income. Therefore he proposed a series of measures, in the first place a focused and continuous intervention of the state in the steering of investment and the increase of consumption. In this point as well his argument with the protagonists of market liberalism seems very contemporary: “While therefore the extension of the tasks of government, which the equalization of the liability to consumption and the inducement to investment implies, would seem a terrible interference with personal liberty for a publicist of the 19<sup>th</sup> century or for an American broker, I defend it on the contrary as the only viable instrument to avoid the destruction of the existing forms of economy in their totality, as well as a precondition for the successful exercise of the initiative of the individual.” [5]

And on this point Keynes went very far – which nowadays is preferably concealed. From his point of view the state should put higher taxes on legacies and high incomes and he stated, that “a quite comprehensive socialisation of investment will show up as the only measure for an approximation to full employment.” [6] And because he – unlike the other protagonists of bourgeois economic science – did not consider the capitalism of the free market as the end of history, he came to quite radical conclusions: “It is not the ownership of productive goods whose acquisition is important for the state. If the state is able to decree the total amount of resources, dedicated for the increase of these goods, and also the rate of award for their owners, it will have fulfilled everything which is necessary. The necessary measures of socialisation can additionally be introduced gradually and without a break with the common traditions of society.” [7]

### **And the Neo-Keynesians?**

Keynesmodel of an economy, regulated by intervention and redistribution by the state, naturally seemed weird to the protagonists of a “free market economy”. According to them, the so-called Neo-Keynesians set the bar lower and confined themselves to asking for a so-called anti-cyclical business cycle policy – not only as the case arises, but planned and continuously: Lowering taxes, deficit financing in favour of public investments and lowering interest rates in times of crisis, to strengthen demand and to facilitate investment and – theoretically – the contrary in boom-phases. Whenever this direction was followed, it led to a continuously growing public debt. What neither Keynes, nor his miserable epigones had taken into account was that the bourgeois state is by no means a neutral body. A siphoning off of the profits of the boom-phases to an extent, which would have allowed the maintenance of the capability of intervention of the state with respect to the next crisis, simply did not happen (not to talk about the legacy tax...). {{{The reality}}} What has been done today by the leading economic powers

like the USA, the EU, Japan etc, in the face of the worldwide economic crisis has almost nothing to do with the original agenda of Keynes. Superficially the so-called “consume-coupons”, conjuncture programs, lowering of interest and lowering of taxes may appear as what the neo-Keynesian economists are demanding. But the “deficit spending” of governments is by no means aimed at a gradual redistribution. On the contrary: the relationship between the financial volume which is spent for direct financial help, debt guarantees and support purchasing for financial capital and the big enterprises, and the money which is going to public investment, is extremely asymmetric. In Germany, for instance, there are 500 billion Euros in the basket for the rescue of the banks; only about 50-80 billion are spent for public investment and strengthening of purchasing power. Just to compare: In the crisis of the late 1960s a social democratic finance minister in Germany opened up an investment-program of 40 billion German Marks. In relationship to GNP this would today mean approximately 400 billion Euros. And there is no sign of a general change of policies of the respective governments. Instead the different protagonists in recent months have rolled out single measures, as if the theory of Keynes and his epigones was something of which everybody could avail themselves according to fiscal and political opportunity. The one side calls for tax reduction, the other for consume-coupons, the third for forced loans from the rich (but with interest, naturally!). Nobody talks about redistribution in the sense of Keynes or the US New Deal of the thirties (which was, by the way, not successful at all, it was the World War which saved the US economy), they act, as if the whole thing is just a governmental rescue- and emergency measure, after which everything could go on like before. Consequently everywhere politicians assert that the state will withdraw from business immediately when the economy is running again. But there are still straightforward Neo-Keynesians, like the chairman of the German Left Party, Oskar Lafontaine, who is demanding public investment. But the fact that he is pleading for the construction of new highways shows (among other points) clearly the Achilles heel of the Keynesian approach.

## **Keynesianism and Climate Change**

Keynes and his successors are focussing consistently on growth. But the problem is, that nowadays we are facing a combined crisis, to which the bourgeois economy has got no answer. On the one hand we have the deepest economic crisis of the capitalist system since 1929, a classic overproduction crisis, and on the other hand the threat of Climate Change as a result of 150 years unlimited exploitation of the natural environment through exactly this exponential quantitative economic growth. The latter proves that policies which place the emphasis on further quantitative growth are obsolete. We do not need, for example, more cars, streets and highways, but an environmentally neutral public system of transport. Individual traffic in its contemporary form has come to its end ecologically. Fighting Climate Change means putting on the agenda an economic order which assesses all mechanisms of production and distribution for their ecologic implications, instead of trying to manage the ecological consequences through market mechanisms or fiscal policies (taxes, CO<sub>2</sub>-certificates), or responding by establishing an additional “Climate Industry”.

But for what is really needed, a sustainable recycling-based economy, which sticks to Climate- and environmental neutrality, the capitalist economy provides no basis – either in its (neo) Keynesian or its market-radical variation. Therefore we need a fundamentally different mode of production and

distribution, oriented towards the needs of the people on the one hand and towards the preservation of the natural environment, which is crucial for the survival of humanity.

For that, and this completely ignored by Keynes and his successors we need a state which is not in the hands of the lobbies from industry and finance capital.

## Conclusion

What the governments of the industrialized countries are actually practising is neither Friedman-school, nor Neo-Keynesianism, nor Keynesianism. It is simply without any concept, short-sighted and from the point of view of Climate politics disastrous. The state and its treasury are taken to the cleaners by the ruling groups from industry and finance capital – for the broad layers of the population, who will be most affected by the consequences of the crisis in the coming years through lower wages, unemployment and old age poverty. Apart from the fact that the success of the “rescue-packages” of the governments is to be doubted, these will lead to a further expropriation of the working class: through inflation, which will be the inevitable result of the enormous expansion of debt.

The governments in fact are executing redistribution: in favour of the rich, to the disadvantage of the working people and at the expense of the environment. The label “Neo-Keynesianism”, which is put on these policies by some propagandists suggests misleadingly that there is a theoretically founded, consistent crisis management. But this is not true: it is false labelling, born from pure helplessness.

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### **P.S.**

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### **Footnotes**

[1] For example: David Romer, Gregory Mankiw: „New Keynesian Economics“ (Cambridge, MA and London, MIT Press, 1991).

[2] All citations from: J.M. Keynes: *Allgemeine Theorie der Beschäftigung, des Zinses und des Geldes*; Duncker und Humblot, Berlin, 6. Aufl. 1983 (the article was originally written in German, so the citations are back-translations from German and may not coincide exactly with the English original. T.P.).

[3] Keynes, op. cit., S.321.

[4] Keynes, op. cit., S.315.

[5] Keynes, op. cit., S.321.

[6] Keynes, op. cit., S.319.

[7] Keynes, op. cit., ibid.