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The Crisis of Capitalism: Keynes Versus Marx

John Maynard Keynes keeps returning, like the ageing diva who goes on giving farewell performances. What does this tell us? First, it tells us that in economics there are no final victories and defeats. Rather, economic doctrines ebb and flow, obedient to changes in consciousness and in the world. But, secondly, it tells us that as the world changes, so do its structures of power. The rise and fall of different schools of economics is related to shifts in the balance of social and economic power. Marx understood this, hence his place in my title.

My purpose here is not to make the case for Keynes, but to consider the passage of his ideas from acceptance to rejection in the context of changing preoccupations and conditions. In this I follow the lead of the eminent Indian economist Amir Kumar Dasgupta, who wrote 'A system of economic theory evolves in response to questions that are provoked by a given set of circumstances in the economy. As circumstances change, or people's attitude to them changes, questions are revised, and a new system springs up' (Dasgupta 1985:4). Dasgupta is right to distinguish between changes in circumstances and changes in people's attitudes to these changes. There is a large gap between the two. This approach will give us some sense of how durable the modest resurgence of Keynes's economics today will prove to be.

Keynes ended The General Theory of Employment, Interest, and Money with the famous words: 'But soon or late, it is ideas, not vested interests which are dangerous for good or evil' (Keynes 1936: 383-4). Anyone involved in the production of ideas has to believe this, unless he is being paid by someone to produce the ideas. In today's world, the chief manufactory of ideas is the Academy. Pure research has long been recognised as an independent intellectual pursuit; its hallmark, disinterestedness. Its purpose is the search for truth. The pecuniary interest of scholars is not directly involved in either the direction of their enquiry or its results (Collini 2009).

Sociology of Success

At the same time, there is what Schumpeter called the 'sociology of success.' Put crudely, why are some ideas acceptable, and others rejected or marginalised? In the natural sciences this question is relatively easy to answer: newer ideas bring us closer to reality than the older ones. For this reason, quantum physics replaced classical physics (Cartwright 1999:2). Reality is unchanging, only the theory changes as it improves our understanding of reality. Predictive power is the ultimate test of the truth of a scientific hypothesis.

In social sciences this is much less true. The natural world does not interfere with one's observation of it; the social world does. It is the changeability of the object being studied which demarcates social sciences from natural sciences. Social reality is constantly shifting, problems crucial at one time become irrelevant at another. As a result, propositions in social science do not satisfy the 'universality criterion'. They are limited in time and place. As Dasgupta (1985: 1-2) points out, theories in economics are independent of each other, they do not supersede each other. Theories in the social sciences can rarely be successfully confirmed or falsified, except briefly. Progress in economics consists of greater precision in stating ideas, not the greater explanatory power of the ideas themselves; and the precision may be at the expense of the explanation. In economics, much more than in physics, the research agenda and structure of power within the profession reflect the structure of power outside it. They have the character of ideologies. And this, of course, was precisely Marx's contention, when he wrote "What else does the history of ideas prove, than that intellectual production changes in proportion as material production is changed? The ruling ideas of each age have ever been the ideas of its ruling class" (Marx-Engels Selected Works, 1962:52).

Power & Ideas

The relationship between power and ideas is not a simple base-superstructure one. Ideas are not at the mercy of events in any straightforward way. The disciplines which produce theories exhibit stability through time, in their concepts, techniques, and language. That is why paradigm shifts are rare. It is true that disciplines turn to new topics. But there is no need to relate all new topics to changes in the world. Theorists might simply get bored with the old topics, feeling that debate about them has reached a dead end. Change of topic is also connected with generational change within a discipline. It is nearer to our theme to say that ideas change when the facts change. (Keynes is supposed to have said, but probably didn't - 'When the facts change, I change my mind. What do you do, sir?'). Up to a point this must be true. But it presupposes a direct relationship between ideas and reality which is plainly false. Facts can be interpreted in different ways. He who controls the interpretation controls the ideas. This brings us to the question of power.

Adapting Steven Lukes (1974), one may think of ideas as a form of 'soft power', which structures our debates about reality. Alternatively, and more comprehensively, they may be seen as shaping our consciousness –the way we interpret our world. But just because ideas are produced in institutions, we cannot ignore questions about the hard power behind the soft power. Who finances the institutions from which ideas spring? Who finances the dissemination of ideas in popular form –media, think tanks? What are the incentives facing the producers, disseminators, and popularisers of ideas even in a society in which discussion is 'free'? In short, what is the agenda of business? It is reasonable to see business as the hard power behind the soft power of ideas, not because the business community speaks with one voice, or because there are not other centres of hard power (e.g. government) but because it is the main source of the money without which the intellectual estate would wither and die.

Ideas are thus an independent source of authority. Practical men –politicians, businessmen, civil servants –are consumers, not producers, of ideas. This gives the producers of ideas considerable latitude vis-à-vis their users. The vested interests are in no position –even were they capable of it - to dictate the precise form of the intellectual defence offered for their preferences. Thus the economist's justification of the free market is likely to be both more general and also more circumscribed than that offered by the business class. For example, economists have almost always opposed protectionism and monopoly. Ideas are thus capable of making self-interest seem more enlightened.

Assertion of the independence of ideas is a necessary modification of crude Marxism, which I dare say Marx himself would have accepted. Nevertheless, in the Marxist scheme, the intellectual class, like the state, attains only 'relative autonomy'; and ideas rarely overturn the perception or promotion of self-interest, however much they may modify its expression. Practical men like nothing better than to have their prejudices dressed up in scientific language. Ultimately the ideas in power serve the interests of the class in power; under capitalism, this is the capitalist class.

Ricardian Foundations

Keynes strongly believed in the autonomy of ideas; he saw his own mission as being to correct 'intellectual error'. On 1 January 1935, he wrote to Bernard Shaw "To understand my state of mind you have to know that I believe myself to be writing a book on economic theory, which will largely revolutionise…the way the world thinks about economic problems…In particular, the Ricardian foundations of Marxism will be knocked away" (Skidelsky 2003: 528).

What did he mean by knocking away the 'Ricardian foundations of Marxism?' Ricardian economics was famously 'an inquiry into the laws which determine the division of the produce of industry among the classes who concur in its formation'. The force of these laws was considered to be on a par with the laws of nature, immune to modification - except temporarily - by public action: hence the case for laissez-faire. Ricardo's 'iron law of wages' – which held that wages could never rise above subsistence – was based on Mathus's law of population. Marx substituted surplus value for surplus population. Malthusian population cycles became Marxist employment cycles: capitalist profits could be maintained only by constantly creating and re-creating a 'reserve army of the unemployed'. For Marx, 'bourgeois economics' simply provided a protective belt for exploitation, by proving that wages were bound to be forced down to subsistence. For Marxist –and perhaps for most socialists of Keynes's age, it was the encroachment of wages on profits which explained the mass unemployment of the interwar years. Keynes's overthrow of the 'Ricardian foundations' consisted in the claim that production and employment could be limited by lack of effective demand; and that in most circumstances, and particularly when unemployment was heavy, could be boosted by government action to increase effective demand.

In making this claim, Keynes did not so much controvert the logic of classical reasoning, as to limit its domain of applicability. It applied only to the 'special case' of full employment. The 'general case' was one in which full employment was only one of a number of possible positions of equilibrium, and not the most likely. In the 'special case', the unfettered market economy was normally at full employment; in the 'general' case, there is no such presumption, full employment being attained only in moments of excitement, and by a chance conjuncture of favourable conditions.
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Profit drives Keynes's capitalist engine just as much as it does Marx's. But whereas for Marx, and the Ricardians, profits are determined by the business class's share of a fixed cake, for Keynes they depend on business expectations of the future size of the cake. For Keynes the class struggle over division of the cake affects profit expectations only at full employment; for Marx the class struggle determined the profit share at all times. For Marx, a 'reserve army of the unemployed' has to be created whenever wages encroached on profits; for Keynes heavy unemployment dampens profit expectations by reducing the expected demand for goods.

Marx believed that the Ricardian class struggle for shares of the national product would be settled decisively in favour of labour: capitalism would be abolished, and with it the profits of capitalists and rents of landlords. But Marx failed to see the unavoidable consequences of the economic and technological revolution which was going on before his eyes. These consequences, as summarized by Lowe (1965:192), were "the shift of political power to the middle classes and the rise of strong labour unions…capable of making their growing aspirations felt under a system of widening franchise…This not only democratized the spirit of modern government but created the new administrative key position for a progressive control of economic by political forces". In other words, Marx missed the growth of a social balance between the 'countervailing powers' of business, labour, and government, which put the revolution off the agenda. At the same time, the business class lost its ability to enforce the real wage reductions necessary to its continued profitability, except in the extreme cases of Germany and Italy. As a result mass unemployment became endemic in the developed world. This was the setting in which Keynes's analysis of the economic problem in terms of 'under-employment equilibrium' could gain traction. It promised to break the social stasis by invoking the economic power of the state.

Non-Marxist Explanation

In presenting the unemployment problem as one of insufficient demand, rather than struggle over supply, Keynes was giving a non-Marxist explanation of mass unemployment. To say that a market economy had no internal tendency to full employment was to make the case for government action to secure full employment. Although his theory undercut the case for socialism, it opened up the road for government 'management' of the macro-economy to ensure a quasi-optimal equilibrium. There would be no government interference with managerial prerogatives or decision-making; the government's task was to guarantee full employment. The attainment of full employment of potential resources would be good for both profits and wages.

Such a theory, I suggest, could only have become the basis of policy under conditions of social balance. Keynes's economics was the economics of the middle way; the best deal that liberal capitalism could expect in a world veering towards the political extremes. Keynes thought of his economics as the economics of the general interest, for it encompassed, while transcending, the sectional interests of both capital and labour. I believe this to be true: it was the least ideological, the least politicised, of all economic doctrines. His political genius was to see that when the problem was one of unused capacity, redistribution was a minor question, which could be postponed till later. But by the same token, his economics threw little light on what would happen to class shares of wages and profits when his own policies achieved full employment in conditions of strong union organisation. In such a situation, would the government need to recreate Marx's 'reserve army of the unemployed' to restrain wage demands? Or would it be forced to inflate to keep profits racing ahead of wages? The latter is what Jacob Viner assumed would happen when society got accustomed to full employment. Keynes himself admitted that he had "no solution…to the wages problem in a full employment economy" (Keynes (1945:385). Marxists, too, believed that attempts to overcome the class struggle by inflation would bring only temporary relief.

To emphasise the political work which Keynes's economics did should not lead one to underestimate its theoretical originality. It was not intended to explain just the Great Depression. It was intended to explain why a decentralised market economy was unable to exploit the full potentialities of production except in 'moments of excitement'. His original contribution was to demonstrate that it lacked any internal mechanism for the maintenance of full employment. Behind this lay a profound insight: that the classical theory of the self-regulating market was true only when market participants had reliable knowledge of future events. Classical models were inapplicable to situations of uncertainty. But Keynes claimed that uncertainty was the typical situation facing the investor. "The whole object of the accumulation of wealth", Keynes wrote, " is to produce results, or potential results, at a comparatively distant, and sometimes at an indefinitely distant, date. Thus the fact that our knowledge of the future is fluctuating, vague and uncertain, renders wealth a peculiarly unsuitable subject for the methods of the classical economic theory". Over a large swathe of our forward-pointing decisions, we have "no scientific basis on which to form any calculable probability whatever" (Keynes 1937:113). Models which assumed that we had calculable probabilities abstracted from the problem of breakdown caused by not knowing what tomorrow would bring.

Risk &Uncertainty

To translate into today's language: central to Keynes's epistemology is the distinction between risk and uncertainty. Risk is when probabilities can be measured; uncertainty exists when no such measure is possible. The existence of irreduceable uncertainty is Keynes's explanation for the mediocre secular performance and periodic breakdowns of a decentralised economy. By contrast, all the mathematical models underlying our recently-crashed financial system assumed that it was possible to measure risk and therefore insure or hedge against loss. Individuals could miscalculate the odds, but, given the assumption of rationality, their mistakes would be randomised. Keynes's theory explains why such models were bound to promise much more than they could deliver.

What was it that rendered large parts of the future impervious to probabilistic calculation? Keynes gave the example of an apple endowed with 'human' characteristics. Newtonian physics tells us that it will always fall to the ground, at a speed dictated by the force exerted on it divided by its mass. But no such prediction can be made about the 'human' apple. "It is as though the fall of the apple to the ground depended on the apple's motives, on whether it is worth while falling to the ground, and whether the ground wanted the apple to fall, and on mistaken calculations on the part of the apple on how far it was from the centre of the earth (Keynes 1938:303)

Some part of the uncertainty attached to the speed of the apple's fall can be put down to mistakes on the apple's part. However, the main 'human' characteristic with which Keynes equips his apple is 'motives' and 'intentions'. It is these which break the link between economics and physics, and which make economics a 'moral' and not a 'natural' science. Keynes's point is that economics "deals with introspection and values….with motives, expectations, psychological uncertainties". The future can't be predicted, because the future is changeable. It is changeable, in large part, because it is what we choose to make it. As Paul Davidson (2007:33) puts it, the economic world is 'non-ergodic'. This view implies a large restriction on the applicability of econometrics. Basically Keynes believed it could be applied only to those fields in which risk is measurable. This excluded most of the risks incurred in investment markets.

The main technique we adopt to cope with a 'non-ergodic' universe is to transform uncertainty into calculable risk by giving it numbers. This is what mathematical forecasting models do, using some version of Bayes theorem to transform prior into posterior probabilities. This gives us the assurance we need to invest. But it is a fake assurance. While repeated betting on horses allows you to update your 'priors' to match the 'true' merits of the horses, no amount of data on past economic events brings you any closer to their true probabilities in the future because the future is bound to be different from the past. What we do is to use mathematics to invent a world of calculable probabilities which we take to be an accurate reflection of the real world.

Thinking about the future as risky rather than uncertain is not foolish. In fact it is the only rational basis of individual action. It is also compatible, as Keynes notes, with a considerable measure of stability. Mathematical forecasts can shape the future they claim to predict, by shaping our expectations. They may produce what economists call 'bootstrap' paths or equilibria, paths which are what they are not because the world is what it is, but because beliefs about the world are what they are. They tell a story about the future which gives confidence, as long as long as nothing happens to shake confidence in the story. But prices thus formed are liable to 'sudden and violent change', precisely because there is no firm basis of conviction to hold them steady (Keynes 1937:14:114-5).

Keynes puts uncertainty to work to explain three leading features of economic life: the frequent breakdowns in the investment machine, the persistence of poverty in large parts of the world, and the possibility of 'under-employment equilibrium'. Let me just say a few words about the last two.

Poverty & Market Economy

Both the persistence of poverty and the failure of a market economy to regain full employment quickly after a shock were connected in Keynes's mind with the role of money as a store of value. He thought that throughout history the desire to hoard savings had been stronger than the desire to invest them, because at all times vague panic fears lay below the surface, denting our optimism in the future, and creating a permanent bias towards preserving existing value rather than creating new value. Keynes believed that investment came in bursts of optimism which he called 'animal spirits'. We can trace these investment upsurges in history –from the railway boom of the 19th century to the dot. com boom which ended in 2000. But normally people preferred to hoard rather than invest their money, that is to say, there was a permanently high level of liquidity preference which exerted a permanent upward pressure on interest rates. Hence, Keynes's support for the medieval usury laws which he saw as an attempt to prevent people making money by hoarding money.

Keynes's theory of economic history was influenced, perhaps over influenced, by Jevons's famous description of India as the 'sink of the precious metals'. "The history of India at all times", he wrote in the General Theory "has provided an example of a country impoverished by a preference for liquidity amounting to so strong a passion that even an enormous and chronic influx of the precious metals has been insufficient to bring down the rate of interest to a level which was compatible with the growth of real wealth" (Keynes 1936:385). Keynes believed that from ancient times onwards, the Orient's propensity to hoard influxes of precious metals had set the Occident a permanent deflationary problem. Shortage of gold in the west had been relieved from time to time by discoveries of gold and silver in the New World, and by Western seizure of Oriental temple and palace hoards. He would thus have seen the global imbalances of today as the reappearance of an ancient pattern.

Uncertainty also lies at the heart of Keynes's theory of persisting unemployment, though this was less developed. As Axel Leijonhufvud (1969) has pointed out the main innovation of the General Theory was to create a model in which the system reacts to a disturbance by quantity not wage level or price level adjustments. Following a shock, output and prices both adjust. But prices adjust slower than output because people don't know what the disequilibrium price is. So they trade at disequilibrium prices. There is no auctioneer to establish a 'vector of market clearing prices' before trade starts. Further, only in the very long term need long-run interest rates conform to underlying physical transformation possibilities and inter-temporal household preferences. In the short run, speculation, in security markets will make them diverge from levels that obtain under full information about transformation possibilities and 'tastes'. Hoarding and dis-hoarding are a concomitant of this speculative activity. Uncertainty may thus cause the real wage and long term rate of interest to remain for years above the rates needed for full employment. In short, uncertainty not only brings about periodic collapses; it removes the economy's postulated 'self-adjustment' mechanisms. The listing ship does not automatically right itself.

Public Investment &Full Employment

Keynes's answer –the only logical one following from his analysis – is for the state to ensure enough investment and/or consumption in the economy to maintain continuous full employment. A steady stream of public investment would, in particular, reduce the domain of uncertainty to modest dimensions. Such investment would not necessarily be profit-maximising. But provided it yielded positive returns, there would be a gain. If markets had perfect information, public investment would be inefficient. But with uncertainty, there is a gain as against having no state investment at all, because of the losses due to uncertainty.

Note here that it was essential to Keynes's purpose to establish the possibility of under-employment equilibrium, in both the long and the short run, to justify a role for government to improve the equilibrium. A theory of cycles, even of deep cycles, would not have done the job, since it was always open to business-cycle theorists to argue that cycles were part of the normal mechanism of economic progress and that therefore government action to dampen or prevent cycles was a sin against progress itself. Schumpeter's theory 'of creative destruction' did amount to exactly this. An economy stuck for decades, even centuries, in an under-employment equilibrium was much more plausibly an object of special government attention than one whose dynamic exuberance occasionally brought about a collapse.

Keynes claimed his theory was more 'general' than classical economics because it encompassed a variety of economic situations exhibiting different states of knowledge. The question is: how central is the Keynes case? If the capitalist growth engine is subject to genuine ontological indeterminacy then its mediocre performance and frequent breakdowns are explained. If, on the other hand, uncertainty can be plausibly modelled as an information problem, to be overcome by learning and by more efficient data processing, then Keynes's case is marginalised, and the classical theory is reinstated as the central case. The comeback of classical economics consisted in marginalising the Keynes case, and reinserting its own theory of the self-regulating market based on 'perfect information' as the 'general case'.

Keynesianism dominated the political economy of developed economies from the 1950s through to the mid 1970s. As Thomas Palley (2009:3-4) argues, 'economic policy was designed to achieve full employment, and the economy was characterized by a system in which wages grew with productivity. This configuration created a virtuous circle of growth. Rising wages meant robust aggregate demand, which contributed to full employment. Full employment in turn provided an incentive to invest, which raised productivity, therefore supporting higher wages'.

The New Economic Paradigm

After 1980, a new economic paradigm established itself based on 'asset price inflation (equities and housing); widening income inequality; detachment of worker wages from productivity growth; rising household and corporate leverage ratios measured respectively in debt/income and debt/equity ratios; a strong dollar; trade deficits; disinflation or low inflation; and manufacturing job losses'. Workers were pressured on four sides: by globalization, reduction in the size of government, increase of labour market flexibility and retreat from full employment (Palley 2009:4-5). With the membership and influence of trade unions sharply reduced and government weakened, business became the sole prevailing power. This brings one close to the conditions of the Industrial Revolution, analysed by Marx.

What accounts for this radical shift in ideas and policies? Part of the explanation is almost too easy. We are never content with what we've got. With the achievement of full employment and vigorous growth under the Keynesian aegis it became easy to forget what life had been like before Keynes. It became natural to assume that full employment was the normal state, and forget that it was achieved by conscious design. The ills of the market were forgotten: it was the ills of government which commanded attention. In economic theory terms this meant shifting attention from the problem of insufficient demand to the problem of inefficient supply – a return, that is, to the classical agenda of economics. More specifically, the key reasons for the shift (though not, exhaustive, and not in isolation from each other)are:

On the intellectual side, the rehabilitation of the market and the denigration of the state. One can tell the fall of Keynesianism as a purely intellectual story, a counter-revolution in economics, starting with Friedman and adaptive expectations and ending with the new classicals and rational expectations, real business theory, efficient market theory, etc. A major casualty on the way was Keynes's fundamental insight of uncertainty, and the associated role of money as a store of value. The upshot was a mathematical reinstatement of the classical theory of the self-regulating market. The rehabilitation of market didn't entirely depend on new classical models. There has been a notable revival of Schumpeterian models –capitalism depended on creative destruction, heroic entrepreneurs. In this Promethean perspective, too much stability destroys capitalism's dynamic, so we must, in Meghnad Desai's graphic phrase 'ride the surf and learn to enjoy it'. Coupled with this was the justification of super-profits as reward for super-enterprise. Right-wing think tanks and journalists simplified and popularised the academic celebration of markets and revulsion against big government.

Keynesianism's failure to solve the Ricardo/Marx problem. Keynesian policy had created the full employment economy which the classical economists had assumed was 'natural'. And in such an economy, as both Ricardo and Marx had pointed out, there was a unique rate of profit compatible with equilibrium. The Ricardians had explained inter-war unemployment by the encroachment of wages on profits. In the 1970s, Keynesian governments used inflation to suppress a rise in the 'natural rate' of unemployment, and then resorted to incomes policy to suppress inflation. From this perspective, inflation was a 'vent for social conflict': behind the increase in the quantity of money was the conflict between classes for income shares; behind incomes policy the aim of restoring the profit share. There is some evidence of a "fundamental decline in profitability which occurred in several countries in the 1970s, itself a reflection of growing labour strength a time of heightened international competition" (Gough 1975:87). The failure of the Keynesian managers to prevent the encroachment of wages on capital in the full employment, unionised economy they had created, destroyed the political utility of Keynesian economics and paved the way for the counter-revolution in policy. The theoretical language of monetarism provided anti-Keynesians with the intellectual cover to pursue a policy of destroying union control over the wage bargain by creating mass unemployment.

The political shift against trade unionism. The lack of a good theory relating employment to prices, the big weakness in the Keynesian political economy, meant that governments in 1960s-70s relied on incomes policy to achieve their overfull employment targets. This not only led to stagflation as described by Friedman, but by increasing the monopoly power of organized labour, turned people against trade unions, even their own members. Trade unions, in Great Britain at least, threatened to become the prevailing power. Labour Government programmes in early 1970s envisaged an economy run by the government and the trade unions, with only a minor role for private business. Thatcherism was the political reaction to this.

The change in the structure of the economy. How much of this was due to autonomous technological innovation, and how much due to policies to restore profits? I know of no good theory which endogenises technological change. But two structural changes seem to be key:
o Consolidation of big business and banking, and shift to a service economy. In the much enlarged financial sector, the degree of concentration has increased-e.g 5 banks control 80% of UK lending. We were told we were creating competitive markets, whereas in fact we created a global network of interlinked oligopolies.

o Globalization. Globalization may be interpreted as the effort of business to escape national regulation. It was based on the export of manufacturing jobs where unions were strong, and rebuilding the economy on the basis of the service industry where they were weak. Globalization was the business response to the declining rate of profit which Marx predicted. It was seen as the master key to overall improvement in the position of the business class. It increased corporate profits, reduced prices of consumer goods, and made possible a huge influx of outside money into the western banking system. But, most important, it was used as a bludgeon to frighten workers and to emasculate their economic and political power.

One consequence of the new paradigm is that the welfare state as the basis of the social contract was replaced by access to credit. “Maintaining growth of spending on consumption requires continued excessive borrowing and continued reduction in savings rates. Continued excessive borrowing requires ever increasing asset prices and debt/income ratios; hence the systematic need for bubbles (which eventually burst). Meanwhile, when the savings rate hits zero, little further reduction is possible. Consequently, both drivers of demand eventually exhaust themselves”. And “the policy triumph of corporate globalization accelerated the process and transformed it into a financial crash” (Palley 2009:14, 16). In my book, Keynes-The Return of the Master, I took seriously Keynes’s well-known remark about practical men being the slaves of some defunct economist. Chicago doctrines in the name of which markets were largely de-regulated were an updated, super-mathematicised version of the ideas Keynes had challenged seventy years earlier. Politicians, regulators, bankers, asset managers, financial journalists became slaves not to defunct economists but to a cluster of Nobel prize winning economists who held chairs in the vicinity of Chicago University. Today I would attach more importance than I did when writing the book to the fact that the separation between the academic producers of ideas and the world of money-making has narrowed enormously since Keynes’s day, and mainly because of the dominance of finance in today’s economies and the dependence of financial intermediation on mathematical forecasting models. Financial academics, particularly in the United States, are now in a position to profit directly from their theories. Many are involved in the financial sector, as hedge fund managers, consultants, analysts, or strategists. It should not strain credulity to assert that they promote ideas which favour their financial interests.

Prospects of Keynesianism

What then are the prospects of a revival of Keynesianism? To be sure Keynes enjoyed a remarkable second coming in the immediate aftermath of the financial crash. In confirmation of Robert Lucas's admission "I guess everyone is a Keynesian in the foxhole", governments the world over instituted stimulus policies to stop the slide into depression. This is in marked contrast to what happened in the 1930s, and testifies to the enduring power of Keynes's commonsense. So far, so Keynes.

The question is whether we can afford to go along with a system which crashes every few years, with increasingly serious social consequences. It is probably impossible, as well as undesirable, to restore the trade unions as a 'countervailing power' in the Anglo-American type of economies dominated by the service sector and high tech manufacture. The liberal solution of breaking up concentrations of big business ('trust busting' as the Americans used to call it) is probably unavailable in the increasingly integrated global market. The key to any restoration of a Keynesian political economy is thus the rehabilitation of the state as an instrument of the public interest. It can be argued that national states cannot control global capital and that a world state is unavailable. But a 'single world' model of globalization is not the only one. It is far more plausible to think of global integration developing via regional integration. This offers a more feasible route to reinserting democratic oversight of the economy. However, this is a huge question which I cannot address today. Meanwhile, I wonder how many more crashes there will have to be before ideas about the future of society more sensible than those put forward by today's 'market sentiment' win a sufficient hearing to influence the course of events.

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