

WITH AND AGAINST CHORNEY: SOME POLICY IDEAS AND ACTION*

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Harold Chorney's 'The Power of Reason and the Legacy of Keynes' (*CJPST* 8/3) is a welcome addition to the ongoing post-mortem on the demise of the post-war consensus. Responding in part to my article 'Post-Keynesian Politics and the Post-Schumpeterian World' (*CJPST* 8/1-2), he maintains that as Keynes's ideas and proposals comprised a "truly revolutionary challenge to orthodoxy," they would have led to the "definite restriction and eventual elimination of upper class wealth and power" had these ideas not been distorted in application. To the extent that any post-mortem on the "death of Keynesianism" ignores Keynes's intellectual accomplishment, it does damage to the cause of social reform, inasmuch as one is ignoring a set of powerful ideas which could be useful in informing and inspiring political action. My article is seen to suffer from this defect, as Keynes's intellectual achievements are seen to be understated, if not ignored, in a presentation which emphasizes Keynes's hyper-rationalist and apolitical orientation to the stabilization of capitalism and liberal democratic politics.

That ideas are a powerful social force is undeniable, so one must indeed remain alive to the social and political implications of intellectual discourse. If the post-mortem on the demise of the post-war consensus is to be effective in directing and assisting the construction of a progressive and useful approach to political economic matters, one must ventilate, and learn from, both the accomplishments and limitations of the Keynesian project. So, Harold Chorney's re-statement of the well-rehearsed accomplishments of the Keynesian system are worth noting again. The myth of

* This article is a response to Harold Chorney's "The Power of Reason and the Legacy of Keynes," *Canadian Journal of Political and Social Theory*, 8, 3 (1984).

the self-regulating market system was demolished by Keynes's exposing of the speculative and unstable character of the investment cycle and the capitalist accumulation process. The prejudice against government involvement in the economy was weakened by illustrating that governments were capable of redressing market instability and promoting full employment and economic stability. The claim that trade union activity was incompatible with economic stability and progress was undermined by demonstrating that healthy and rising levels of national income bolstered effective demand and, hence, employment and stability. And, the operationalizing of Keynes's ideas — no matter how simply this was done — accelerated the development of the legitimacy of claims for economic and social security and economic democracy. In all of this, Keynes's theoretical efforts were informed by an imaginative intelligence which well served his personal commitment to social justice.

But, the Keynesian legacy comprises more than these intellectual and practical accomplishments. It also involves a number of liabilities, particularly with respect to its impact on the character of politics and the shaping of political institutions and culture. Any overall 'accounting' of the Keynesian legacy is surely a matter of very imprecise calculation. Nonetheless, it was these political dimensions that my article addressed, features which have been far less rehearsed and understood. Similarly, any reasonable account of Keynes's thought will present a dialectic in the Keynesian personality. As Harold Chorney himself shows, while Keynes made proposals which challenged the capitalist arrangement of power, he was not a radical socialist; while he understood the flaws of capitalism and its dominant class, he was by no means shrewd politically. There is a continuing dialectic at play in Keynes between the theoretical and the practical, between radicalism and conservatism, between innovation and orthodoxy, between insight and naivety, that is perhaps more interesting than any particular feature in the description of Keynes. In broad terms, there has been a kind of schizophrenia which has informed liberal thinking and action in the 20th century, and this tendency muddies the Keynesian waters, making it difficult to draw transcendental conclusions.

It will be recalled that in the desperate, uncertain and anxious conjuncture of the interwar period when Keynes formulated the argument in the *General Theory*, political economic analysis and policy proposals were in turn desperate and deeply radical — ranging from fascist arguments for maintaining capitalism to revolutionary designs on transforming capitalism. But, as Keynes admitted, the ideas in the *General Theory* were "moderately conservative . . . at the present moment people are unusually expectant of a more fundamental diagnosis [than that presented in the *General Theory*]; more particularly ready to receive it; eager to try it out if it should be even possible." This self-estimation may be a touch self-deprecating, though it is

not hard to contrast the desperate ideas and proposals of the 1920's and 1930's with those in the *General Theory*. But, how can this self-estimation be accurate, given Harold Chorney's sense that Keynes understood the limits of the capitalist accumulation process and proposed policies which would transform the capitalist arrangement of wealth and power? The answer lies generally in the schizophrenia informing the analysis and proposals within the *General Theory*. More to the point, Keynes presented a rationalist and reformist approach which was *operational* in a practical sense, and which presented societies — particularly the Anglo-American ones — with a way of avoiding "more fundamental" analysis and policies. That the latter are touched on in the *General Theory* and elsewhere is certainly arguable, as they are part of the Keynesian dialectic. But, they are not operational in the Keynesian design. This dichotomy rests upon two features associated with the character of his assessment of capitalism: its apolitical and ahistorical approach.

While Keynes was a great and innovative thinker, he was also a very practical man who wanted ideas and thinking to serve the material world — in particular, to improve British circumstances in the interwar period. Harold Chorney is insightful in pointing to Keynes's practical experience on the business side of things, which allowed Keynes to acquire some understanding of the business class and the speculative character of the investment and accumulation process. However, this experience proved to be a mixed blessing, inasmuch as it was a constrained one, grounded less in the world of production than in the psychological world of finance. This experience was more or less in tune with the predominance of finance in the British political economy as well as with the British upper class antipathy to the dirty world of factories and production. These practical experiences probably contributed to his overemphasizing the speculative and psychological aspects of the accumulation process which — while undeniably important — do not tell the whole story. This had two important consequences. As will be explained below, it contributed to a relatively ahistorical analysis oriented exclusively to the medium term or investment cycle. Moreover, it generated an apolitical view of how capitalism could be managed and reformed.

With respect to the latter implication, Keynes's attitude to changing capitalism was at once innocent and schizophrenic. One can cite the sparse references by Keynes to the elimination of the rentier class, the saturation of the capital goods market, the fall to zero of the pure rate of interest, the stationary state, etc. Putting aside for the moment the view that these speculations had but a minor and marginal place in the Keynesian system, one could present them as being the result of analyses and proposals which produced a truly revolutionary challenge. Then one can argue that the project was blocked by a capitalist class less than enthusiastic about its own

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euthanasia. It may be that technical economic analysis was improved by Keynes's sensibilities about the psychology of the capitalist investment process. But this certainly did not generate much in the way of practical common sense. It is hard to imagine that anyone with an understanding of the capitalist system or of class forces would imagine that these changes would evolve without political challenge, unless one was convinced that transforming capitalism was simply a matter of mesmerizing or hypnotizing a psychologically unstable capitalist class. That Keynes speculated about radical changes in capitalism was the result of an overdependence on the psychological dimension. This in turn resulted in certain policy proposals which were rationalist and technical and — in some cases — not operational politically.

Moreover, one must also consider whether an economic system marked by these kinds of changes would remain a capitalist one. Here, there is absolutely no controversy about the fact that Keynes opted for the continuation of the capitalist system, as his more frequent and compelling references to its provision of efficiency and liberty would indicate. Keynes was a liberal (both spiritually and politically) and did not challenge the appropriateness of a liberal, individualist political economic culture. He was nothing short of appalled about Soviet civilization. But, as a humane liberal, he was somewhat schizophrenic about how to operationalize a capitalist system which would treat individuals with human dignity and not as economic fodder. He did maintain that the collective use of intelligence might rid capitalism of its instability. But, this argument was totally divorced from any ideological concerns, and rested upon the peculiar assumption of the existence of humane, reasonable thinkers (like himself) who could be called on periodically to redress capitalism's evils. That the means of attaining economic and social security might lead to certain qualitative political economic changes was certainly mooted by Keynes. But, one cannot be indulgent and play both sides in this obvious technical and moral conflict raging within Keynes's thinking. On the one hand, the operationalization of any drastic changes would be carried out in an essentially technocratic, elitist and undemocratic way. On the other hand, what is to be made of calls for reform which cannot be enacted? State domination of levels of, returns on, and direction of private investment; the fall of the pure rate of interest to zero; the stationary state — in what sense can this array of developments be compatible with the capitalist economic system which, at bottom, Keynes wanted to protect from the "more fundamental" analysis and policies of the 1920's and 1930's?

Any reasonable interpretation or application of the Keynesian system must involve an attempt to operationalize those features which can indeed be operationalized. It was for this reason that the four-part typology of Keynesian analysis and policy was drawn up (pp. 74-5). Admittedly, these

ideal types were rough and ready characterizations of the main streams in Keynes's thought, both as he presented them, and as were interpreted in his work by others. They were designed to follow the "practical" Keynesian spirit, by being related to the practical, political considerations of having analysis generate workable policy conclusions. What bounded the exercise were two concerns: whether capitalism could survive, and whether liberal democracy could prevail. So, two broad policy options were characterized, each of which had a variant which was set by specific historical and political factors (*viz.* emphasis on accumulation or legitimization concerns). These possibilities were distinguished by the degree to which each contributed to the retention of or challenge to — capitalist economic and liberal democratic political forms. Those societies which were most alive to the "spectre" confronting capitalism and liberal democracy took up the Keynesian option which offered the possibility of stabilizing the capitalist system and accommodating socio-economic demands, while retaining the fundamental features of capitalism and a political approach which fulfilled the Schumpeterian conditions for the perpetuation of liberal democratic politics. This orientation would rely on general, macro, short-term policies to stabilize the level of aggregate demand. On the other hand, the second broad option — the real Keynes to some — provided a rationale for more specific micro, long-run and interventionist policies, whose implications for capitalism and liberal democracy were far less benign than those of the first option. But, to suggest that this is the real or only Keynes worth considering is to ignore the political and economic consequences of seeing through this set of proposals. That these two visions nestle side-by-side in the Keynesian scheme of things indicates the dialectic at play in the Keynesian design, a dialectic which has informed liberal thought and action throughout the second half of the 20th century, and which is a far more interesting phenomenon than any specific aspect of Keynesian technical economic analysis.

So, the Keynesian system provided options, the most compelling of which — to the Anglo-American democracies — was a relatively painless, politically low-cost, technocratic, elitist and capitalist approach to political economic matters. That this one part of the Keynesian dialectic could be seen to be viable was related as well to the particular temporal vision adopted by Keynes. It is a tremendous historical irony that the post-war period was marked by spectacular rates of growth, despite the fact that the North American agenda was dominated by the operational (or bastard, free market, reformist) Keynesianism. Indeed, even this approach was not carried out to any great extent. Wartime economic and social transformation, post-war reconstruction, and the Cold War contributed to the intense expansion, but the more fundamental process was the upward unfolding of the fourth long cycle. This was the predominant economic reality of the

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post-war period, as the capitalist economies exploited the possibilities provided by the third technological revolution.

Keynes's famous quip that "in the long run we are all dead" nicely symbolizes the well-rehearsed ahistorical quality of his work. The *General Theory* provided a medium-term analysis of the investment cycle, and neglected both the short-run or inventory cycle as well as the long run or Kondratieff cycle. It took as given technological conditions, economic opportunities, tastes and culture, political arrangements, social conditions, etc. The *General Theory* did provide some imaginative and provocative speculation about the long-term course of capitalism. But, it was divorced both from his medium-term analysis as well as from any real sense of the long-term mechanisms at work in economic development. While governments did not address the investment cycle in a really forceful way after the war, this negligence was more or less hidden by the strength of the upward phase of the long cycle. Indeed, there were two basic reasons why the more ambitious or radical version of Keynesianism was not adopted after the war: the existence of the operationally viable liberal, capitalist variant of Keynesianism and the empirical reality of the booming capitalist long wave which seemed to undercut the argument for "more fundamental" analysis and policy.

However, the most pressing feature of this part of the Keynesian legacy is that the present economic conjuncture and policy debates are so similar to the situation which Keynesianism had apparently resolved. As the long cycle peaked in the late 1960's, governments grasped frantically at underused, underdeveloped and misunderstood variants of Keynesian policy which were destined to fail, given that Keynesian medium-term analysis did not address the long cycle changes which were unfolding. On the one hand, "Keynesianism" lost its legitimacy as it came to be associated with the unsettled economic circumstances and policy failures of the 1970's. On the other hand, to the extent that the case was made for interventionist policies more in tune with these long cycle developments, this policy shift was not operational politically or ideologically. Indeed, it ran into a parallel development — the evolution of the monetarist, supply-side, anti-statist, anti-collectivist arguments of the New Right. So, as the economic situation came full circle to one similar to that of the 1930's, so too did the policy agenda reconstruct itself along the lines of that period.

But, one would have thought this to have been impossible, given that part of the Keynesian legacy had been the shattering of the idea of the self-regulating market and the settling of the question of the role of the state in economic life. However, the present case for an extension of the Keynesian design into deeper political and economic waters was itself weakened in the Anglo-American democracies by their adoption of the liberal capitalist variant of Keynesianism after the war. To begin with, capitalist ideology

was neither challenged by either variant of Keynesianism nor transformed by the post-war experience. Moral and ideological sensibilities continued to reflect the predominance of an individualist political and economic culture. Similarly, neither the adopted variant of Keynesianism nor the post-war experience altered the political institutional pattern of a majoritarian (as opposed to consensual) orientation which ensured the continuing decline in the role of Parliament and the extension of the rule of the executive and administrative elite. A political-economic matrix developed: capitalist allocation and distribution remained intact; political economic culture remained passive, deferential and non-participatory; political institutions remained elite-dominated and cut off from society; and the style of public policy was technocratic, rational and apolitical. All of this was a far distance from the exhortations made in the interwar period that because capitalism and liberal democracy were decaying, new institutional and planning approaches should be adopted and fired by a collectivist, participatory economic culture and ideology.

In the non-Anglo-American democracies, the story was quite different. With a weaker liberal and capitalist ideological inheritance, and with a different set of institutional arrangements, there was little agonizing over Keynesianism and the role of the state in the economy. Indeed, the Keynesian approach did not figure large in the continental and Japanese post-war experiences. Building upon past accomplishments and arrangements, there evolved roles for socio-economic groups and individuals and governments that were different from, and rather larger than, the ones prescribed for individuals and the Keynesian liberal state. These roles encouraged the evolution of more collegial institutions and a more consensual political economic culture than existed in Canada over the postwar period. When the upward phase of the long cycle deteriorated in the late 1960's, these countries had a political economic culture (grounded in a sophisticated, experienced populace) and political institutional arrangements (based on collegial, consensus-building mechanisms with considerable authority) which could be brought into play. Instead of sterile debates over Keynesianism vs. Monetarism, free trade vs. industrial strategy, etc., policy and political debates have centred mainly on imaginative and challenging programs of an interventionist, supply-side and long-term sort (the type characterized in the second Keynesian option).

However, the Keynesian legacy in the Anglo-American democracies has inhibited the evolution of new, useful and progressive policy responses. While policy ideas, approaches and suggestions have been forthcoming — many of which are grounded in the second Keynesian option — and while governments have moved tentatively along these lines, their actions have lacked legitimacy. In the absence of a collaborative political economic culture, it has been difficult to move to specific, long-term and transparently

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political policy choices and portray these choices as being in the interests of all society. In the absence of collegial political institutional arrangements with roots in society, governments' actions and proposals of a more ambitious sort have lacked authority. On the other hand, the cultural and institutional inheritance has made it easier for the arguments of the New Right to strike a resonant chord. Indeed, it has turned out to be far more difficult to initiate and propose progressive extensions of Keynesianism than it has been to propose and move to undo a number of features of the welfare state and to challenge the weak tradition of state management of the economy. The essentially technocratic nature of the evolution of the welfare state — with little public involvement in its development — inhibited the evolution of a political economic culture which could come to support these accomplishments once they were threatened. The end (and bitter) result is that arguments for extending the role of the state in economic life are seen by many to be no more than another round of claims for a technocratic, social engineering approach which has already been discredited both morally and economically. So, the Keynesianism vs. Monetarism and free trade vs. industrial strategy debates reflect the continuing liberal schizophrenia about the role of the state in economic life. Of course, this seriously constrains the articulation and implementation of more appropriate and progressive policies. If the latter are to become operative, they must contend both with the question of their potential effectiveness as well with their relationship to the institutional and cultural inheritance.

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