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Kalecki and Modern Capitalism

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Collected Works of Michał Kalecki edited by Jerzy Osiatinsky, translated from the Polish by Chester Adam Kiesel:

> *Volume I; Capitalism: Business Cycles and Full Employment*. Oxford: Oxford University Press, 1990. 614 pp. $135.00.
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> *Volume II; Capitalism: Economic Dynamics*. Oxford: Oxford University Press, 1991. 631pp. $135.00.

The publication in English of the first two volumes of the collected works of Michał Kalecki (1899–1970) is a tribute to the intellectual importance of his contributions to the analysis of twentieth-century capitalism. The whole project will involve seven volumes, the first two of which deal with the capitalist economy. Most of the material contained in them is already well known to the community of nonconformist economists. The first volume assembles, for instance, the 1935 *Econometrica* article on the business cycle, which made Kalecki famous among mathematical economists, the booklet *Essays in the Theory of Economic Fluctuations* (1939), and his celebrated paper on the political aspects of business cycles (1943). We find also the complete version of his first Polish book *Essays on the Business Cycle Theory* (1933), a part of which appeared in Kalecki's selection of essays published in 1971 by Cambridge University Press. Likewise, the second volume features Kalecki's contributions to the question of full employment, written while in Oxford during and immediately after the Second World War (after a period spent at the United Nations, he returned to Poland in 1954). The centerpieces of Volume II are his classic book *Theory of Economic Dynamics,* which in the United States has been reprinted by Monthly Review Press,[1] along with

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the very important *Economic Journal* articles "Observations on the Theory of Growth" (1962)—a critique of the Keynesian approach to growth under capitalism—and "Trends and the Business Cycle" (1968)—a profoundly argued statement about the strength of stagnationist tendencies.

Alongside the writing which projected Kalecki into the world of academic and mathematical economics, both volumes include papers hitherto unavailable in English highlighting the strong interaction between political and economic analysis which permeated his thought over four decades. In this context, it is regrettable that the editor chose not to include, in either volume, Kalecki's work on the war economy, published in the *Bulletin of the Oxford Institute of Statistics* during the war itself. Kalecki's thinking always evolved with history. In the 1930s, he was interested in stressing the persistence of business fluctuations in a trendless economy, that is, in an economy showing no growth at all, as was the case in that period. In the postwar years, when new products were changing the structure of production and consumption, he concentrated on the impact of trend-like factors (such as innovations) in a monopolistic framework. In studying the economics of war financing, Kalecki pointed out the solid and quite inflexible grip of the capitalist classes on the distribution of national income, even under emergency conditions. Consequently, he favored rationing and direct intervention in physical production. The seeds of his subsequent skepticism about the actual implementation of full-employment and social-welfare oriented policies in peacetime can be traced back to the analyses conducted during the war. In other words, the writings of the war economy are part and parcel of Kalecki's ideas about the working of capitalism in historical time.

On the whole, despite some limitations on the selection of the papers, these volumes show beyond any shadow of doubt Kalecki's Marxist conception of history and economics. Indeed, Kalecki's culture and outlook emanated almost entirely from the Marxian milieu of Central Europe, which stretched beyond the social democratic movements. By the turn of the century, in the German-speaking and Russian-dominated areas of Europe, Marx's work was seen by large segments of the intellectual strata as a genuine scientific contribution to political economy, an attitude which today can be found in India and Japan more than anywhere else.

To put Kalecki's works into perspective, we need to keep in mind the two major historical changes which deeply influenced Marxian thought prior to the First World War. The first of these changes is the emergence of the large corporation in Germany and in the United States. This meant that accumulation could no longer be portrayed as being based on the competitive tendency toward a uniform rate of profits. The cartelization of the German economy, centered as it was on a tight integration between banks and industrial groups, led to the formulation by Austria's Rudolf Hilferding of the theory of finance capital, which, in turn, influenced the development of Lenin's ideas about the connections between monopoly capital

and imperialism. The second phenomenon, this time correctly anticipated by Marx, was the growth and specialization of the capital goods sector as a distinctly separate branch of production. This was a direct result of the rise of the large corporation. Big industrial complexes, in order to attain the required economies of scale, had to build up their productive capacity well above the current level of demand. The production of machinery and equipment could no longer be confined to workshops within the firms of the consumption goods sector. This sectoral feature of accumulation, occurring especially in Germany and the United States, but later also in Japan, led Central European Marxists as well as non-socialist intellectuals (Tugan Baranovsky, for example), to debate whether the tendency toward an ever increasing predominance of the capital goods sector could be maintained indefinitely, or whether it would lead to an endemic problem of realization (Tugan Baranovsky, Rosa Luxembourg). Looking with modern eyes at that debate, one can say that the participants were in fact grappling with the question of capacity utilization in modern capitalism without, however, making it into an explicit issue.

Michał Kalecki's contribution lies precisely in having brought to the surface the problem of capacity utilization in monopolistic economies. In this way, his writings can be read as a synthesis and as a further original development of the ideas outlined by Lenin and Rosa Luxembourg. But Kalecki's novel approach not only revolutionized Marxian thought, it also determined a change in the overall perspective toward the business cycle in general. The theories of business fluctuations then prevailing in Europe, as expressed by Albert Aftalion, viewed depressions as resulting from an overproduction of consumer goods, leading to a fall in prices below costs of production. The gist of Aftalion's argument is as follows. The construction of new plants requires a longer period than the production of consumables, therefore demand cannot be adequately satisfied and prices remain high. As soon as new factories become operational, their output will flood the market for consumption goods, reducing prices and profit margins. Kalecki rejected this line of thought from the outset. On the very first page of his 1933 *Essay,* in direct reference to Aftalion he wrote: "This conclusion, which is inconsistent with reality, results from the false assumption that productive capacity remains fully employed, and indeed reaches its peak during depression" (Vol. I, p. 67). Yet why should the degree of utilization play such an important role in the phases of business cycles?

Kalecki seemed to have worked out the *economic* answer to this question before its mathematical formulation in his 1933 *Essay.* Two outstanding papers published in 1932 in the Polish journal *Socialist Review,* now available in English thanks to this collection, explain why—with the crisis of the 1930s—the degree of capacity utilization has acquired such an important role. The first, called "The Influence of Cartelization on the Business Cycle" (Vol. I, part 2), is a critique of the view that the price-stabilization policies

enforced by cartels would reduce output fluctuations, a thesis common also among social democratic circles and put forward in 1928 by Schumpeter in his *Economic Journal* paper "The Instability of Capitalism."

Kalecki begins by comparing two economies: one has both a cartelized and a competitive segment, while the other is freely competitive. The cartelized sector will display constant profit margins per unit of output because of price-fixing policies, whereas profit margins in the wholly competitive economy will fluctuate with prices. Hence, they will rise in a boom, due to the expansion of demand and the rise in prices, and fall in a recession on account of price deflation. It follows that, compared to the cartelized sector, profits in the competitive economy will also be higher in a boom and lower during a crisis. The competitive economy will, of course, be subject to output fluctuations. But since profit margins vary with the cycle, during a depression output will fall less than profits.

By contrast, the economy with a cartelized sector will behave roughly as follows. Cartels do not compete through prices but via the buildup of productive capacity, which is the main instrument for capturing the largest possible market share. In a boom, cartels engage in an "investment race" which, through its impact on the overall level of demand, will lift prices and profit margins in the competitive sector of the economy. However, this very investment race creates a situation in which at the beginning of the crisis the cartelized sector will already have a significant amount of excess capacity. In this context, stability in profit margins means that cartels will respond to a slowdown in demand by cutting the level of investment and of employment, causing additional unused capacity. Kalecki assumed that the competitive branches were concentrated mostly in the consumption-goods industries, a position which he changed after the war. As a consequence, the reduction in demand for consumption goods caused by the firing of workers in the cartelized industries will lead to a fall in the prices of consumption goods. Output in these industries will decline but not as much as the cartelized ones. On balance, the economy with a cartelized segment will show greater fluctuations in output than a wholly competitive system. Stability in profit margins does not mean, therefore, stability in the level of investment. On the contrary, capacity-based competition implies that the response to a slowdown in economic activity will come chiefly through a fall in investment levels.

From this brief presentation of Kalecki's early approach, it is easy to see how monopoly capital (cartels) and the problem of realization are connected via the role played by the degree of capacity utilization. In this way, both Lenin's and Rosa Luxembourg's preoccupations are unified in a novel theoretical framework reflecting the conditions of the 1930s. Following his theory, Kalecki developed a systematic criticism of the position expressed by the main economic thinker of the Communist International, Eugene Varga, concerning capitalism's ability to overcome the Great Depression.

In an article printed in the *Internazionalle Presse Korrespondenz* of February 1932, Varga argued that the fall in wages caused by the Depression would reduce unit costs of production, thereby favoring a recovery in the rate of surplus value and in the rate of accumulation. Furthermore, the fall in prices, by cheapening the cost of fixed capital, would help the recovery in the rate of profits and in the degree of capacity utilization. In Kalecki's eyes, the foundations of such an optimistic pronouncement were very shaky indeed ("Is a 'Capitalist' Overcoming of the Crisis Possible?", in Vol. I, part 2). He pointed out that a fall in wages, if accompanied by a proportional fall in prices, would not much affect the cost of production. If, on the other hand, wages fell more than prices because of the cartel policies, the likely outcome would be an increase in the level of unsold inventories in the consumption-goods sector. Also the rate of profits would not be increased by price deflation. In fact, a fall in profits resulting from a, collapse in output greater than the fall in prices would increase the value of the stock of capital relative to the value of output. Consequently, the value of output per unit of capital would decline, pushing the rate of profits downward. If neither a fall in wages nor a decline in prices can contribute to a recovery in profitability, the system has very scant chances of finding its way out of the crisis, except in the case of a wartime boom. This is basically the position held by Kalecki throughout the 1930s. The capitalist world economy was seen as drifting helplessly toward war.

Kalecki's modifications of what may be called a classical Marxian approach to accumulation and crisis are basically two: (1) unused capacity is a phenomenon built into the working of a monopolistic economy; (2) price fixing, or oligopolies transforms any fall of wages into a fall in effective demand. At the same time, the monopolistic resilience of large corporations allows the transfer onto prices of any increase in wages exceeding the growth rate of productivity, unless unions are strong enough to prevent such an occurrence ("The Lesson of the Blum Experiment," 1938, in Vol. I, part 5; "Class Struggle and the Distribution of National Income," 1971. in Vol. II, part 1). In short, the system of monopoly capital is subject to declining profits like the competitive Marxian one, but unlike Marx's it is also held back by persistent unused capacity. It follows that the stimuli to expansion are more likely to come from external sources such as government expenditure on armaments.

These are the main themes Kalecki explored in the postwar years, aside from his contributions to the theory of growth in a socialist economy. After 1945 one did not have to be a Marxist to fear that with the end of the wartime boom the Depression Decade might come back. However, partly because of the noninflationary financing of the war itself and mostly because new wars (France in Indochina, the United States in Korea) got quickly underway, accompanied by U.S.-sponsored reconstruction programs in Europe instead of a slide into a new Depression, the global capitalist economy climbed onto

a path of sustained growth. In this context, the innovations born during the interwar period, whose mass application was thwarted by the Depression but enhanced by the world war (telecommunications, autos, aviation, electronics, etc.), started to spread virtually to every branch of economic activity. This state of affairs transformed the cultural framework within which economic analysis was undertaken. The Platonic idea of static market equilibria gained prominence once again, and cycles were seen as fluctuations around a trend line expressing the long-run growth rate. It is clear that, on these assumptions, the problems of the capitalist economy could be solved through clever financial manipulations. Downturns would be smoothed out by means of budget deficits, while other stimuli to private investment—such as accelerated depreciation allowances and flexible interest rates—would ensure a growth rate consistent with full employment.

Kalecki's postwar contributions to a dynamic theory are an antidote to the purge of crisis and stagnationist elements from the analysis of capitalist development. In the 1962 paper "Observations on the Theory of Growth" (Vol. II part 5), he explicitly took issue with the watering down of capitalism's problems to the simple antinomy (contradiction) of fluctuations around a trend line. "I believe," he wrote, "that the antinomy of the capitalist economy is in fact more far reaching: the system cannot break from the impasse of fluctuations around a static position unless economic growth is generated by the impact of semi- exogenous factors such as the effects of innovations upon investment" (Vol. II, p. 411).

A deeper discussion of the role of innovations followed six years later, just two years before his death, in "Trend and the Business Cycle" (Vol. II, part 5). The essence of the necessarily complex mathematical constructions contained in that article is easy to grasp. The dynamic behavior of a modern capitalist economy is based on the interaction of a number of factors. First, a mature economy possesses a high level of productive capacity. Older equipment, however, is associated with declining profits. In other words, the real costs associated with the operation of old machinery increase over time. Second, such an economy is organized on a monopolistic basis. In Kalecki's formulation, the degree of monopolization is expressed through a given, quite-inflexible share of profits in national income. Third, the higher the degree of monopolization in the economy, the lower the impact of the rise in costs associated with the operation of old equipment. Monopoly capital allows, therefore, for the absorption of the costs of holding onto relatively older machinery. Fourth, the impact of innovations on investment is greater the greater the transfer of profits from old to new capital equipment. Yet a highly monopolistic economy, capable therefore of reducing the impact of the rise in costs linked to old machinery, would need a very heavy stream of innovations in order to generate internally a high level of investment. It follows that, even taking innovations into account, a chronic underutilization of equipment may result if monopolistic elements are strongly entrenched in the system.

These were not just mathematical exercises. Kalecki's concern was to explain the actual course of the evolution of modern capitalism. His criticism of the view that things will be taken care of by technical change and his conviction that the basic contradictions of a monopolistic economy tended to reappear also in the postwar period were grounded in his analysis of the U.S. case. It is unfortunate that the editor of this collection has omitted Kalecki's excellent paper on the situation in the United States in the postwar period as compared to the prewar years. Luckily the essay is available in a collection of his papers published by Monthly Review Press[2] (*The Last Phase in the Transformation of Capitalism*). Kalecki's statistical analysis showed that the main factors preventing the reemergence of an overaccumulation crisis were external and institutional in nature: budget deficits, export surpluses, a higher share of taxes on profits. These factors were in very large part connected to armament expenditures.

However, the social and political picture of the 1950s is presented in a markedly different light from that of the 30s. The absorption of the surplus by external and institutional means enabled the U.S. economy to sustain a relatively high level of employment and a growth in wages along with productivity increases. This, Kalecki thought, caused a sort of social atrophy in the class consciousness of the working people. Therefore, he rejected the catastrophic view of capitalism dished out by the Communist Parties in the Soviet Union and Eastern Europe. In a series of lectures given in 1955 at the Central Committee of the Polish United Workers Party (Communist), Kalecki gave the following picture of the U.S. society: "This is an economic system which, though having a tendency to go into recession, avoids catastrophic crisis but does not show a high rate of economic growth." In turn, the "absence of severe crises changed the mentality of the U.S. masses and made them susceptible to the mass media and propaganda which, ... in the U.S.A. are in fact controlled by the ruling class." ("The Impact of Armaments on the Business Cycle after the Second World War," Vol. II, pp. 400–401).

At the time of Kalecki's analysis in the 1950s, the tendencies toward stagnation in the United States were somewhat isolated from the rest of the world because both Europe and Japan were in a phase of economic reconstruction. The two subsequent growth periods in the United States during the 1960s and the 1980s were linked to actual war and/or military expenditure. In this respect Kalecki's conception of the evolution of capitalism has been confirmed. Yet there has been an important—perhaps decisive—new factor which demands a new theoretical analysis. U.S. growth in the 1960s was essential for the continuing expansion of Western Europe and, especially, of Japan. The second growth phase, despite the much more open character of the U.S. economy, did not put an end to the stagnation forces of the 1970s. Western Europe, although it increased its exports to the United States, remained basically in deep stagnation. The only positive repercussions were in Japan and related areas in Asia. The dominant and novel aspect of the

1970s and 1980s was not the growth of output, but the generalization of financial speculation.

Bourgeois economists look at financial speculation as a result of the irrationality of policy-makers. Instead, the rise of finance, its "emancipation" from production, should be seen as the cause, not the effect, of interest- and exchange-rate instability. It is also the cause of the intractability of balance-of-payments problems. The implication of the "financial explosion" is that the monopolistic corporation cannot be viewed as a stable and coherent unit. *Business Week's* realistic term "the hollow corporation" should not be read too literally. Corporations are very full indeed, but their internal operational coherence is shattered by the primacy of finance over production. The study of this new and most chaotic phase of capitalism must become the main task of present-day Marxian political economists. Marxists must scrutinize financial capital with the same revealing lens that Kalecki (and Baran and Sweezy) focused on industrial monopoly capital.

Notes

1. The book is out of print. Photocopies are available from University Microfilms, 300 N. Zeeb Road, Ann Arbor, MI 48106.
2. The book is out of print. Photocopies are available from University Microfilms.