



James Crotty, *Keynes Against Capitalism: His Economic Case for Liberal Socialism*. New York: Routledge, 2019, 397 p.

Reviewed by: Bahar Baysal Kar

John Maynard Keynes was a unique and influential economist of the 20th century. Through his dimensions of method, theory, and policy, he was more than just a capitalist revolutionary (Backhouse & Bateman 2009; O'Donnell 1996); his uniqueness also derived from his approach as a moral philosopher, and he tried to account for what the purpose of economic activity is. For him, the purpose of economic activity is a "good life," rather than the production of goods and services to meet human wants. Mainstream economists argue that, for Keynes, the necessary stage of the ideal of "good life" is "reformed capitalism." They claim Keynes tried to save capitalism, but he was not its uncritical enthusiast (Skidelsky, 2009). He did not reduce capitalism to the pure economic logic of the market and challenged the traditional state-market dichotomy. Thus, he justified economic interventionism for the welfare of the whole community.

Contrary to this conventional wisdom, Emeritus Professor of Economics at the University of Massachusetts Amherst, James Crotty, who attempts to combine the Marxian and Keynesian traditions in order to present these traditions' complementary analytical strengths, radically argues that Keynes "came to believe that capitalism was inconsistent with the requirements of a good society" (p. 368) in his book *Keynes Against Capitalism*. He claims that Keynes wanted to replace capitalism with Liberal Socialism, which is "a planned or state-guided socialist economic system built around public and semi-public control of the lion's share of large-scale capital investment" (p. 2). The book addresses almost all of Keynes's critiques about laissez-faire capitalism and these critiques are used to support his vision of a new economic system.

@ Asst. Prof., Bursa Uludağ University. bhrbysl@gmail.com

ID <https://orcid.org/0000-0003-2335-6299>

© İlmi Etüdler Derneği
DOI: 10.12658/D0263.
insan & toplum, 2020.
insanvetoplum.org

Crotty asserts that Keynes tried to convince people to accept Liberal Socialism in almost all his works from the 1920s until his death. According to Crotty's main idea in his book, Liberal Socialism was Keynes' way of overcoming the long-term stagnation that emerged after World War I. Crotty calls this long-term stagnation of capitalism, which he presents as the main problem in the book, as *secular stagnation*. More interestingly, he asserts that this stagnation, which had been popular in the 1930s, re-emerged following the 2007-2009 global financial crisis. Crotty reveals a different dimension of Keynes' analysis through his stagnation thesis. Conventional wisdom suggests that Keynes was interested in the short term, referring to the statement "We are all dead in the long run." However, Crotty discusses how Keynes had not just merely dealt with the short term but had also been interested in analyzing the long-run tendencies of laissez-faire capitalism.

The book consists of three main parts and has 23 chapters with an introduction. Chapter I is the Introduction. Part I has 10 chapters covering Keynes' work from 1919 to 1933. In Chapter 2, he analyzes Keynes' book *The Economic Consequences of Peace*. This book, in which Keynes had tried to explain why long-term stagnation exists in Europe, was the beginning of the Keynesian revolution through the author's dimensions of theory and policy. Crotty states that the book represents Keynes' first dealings with the structural flaws of capitalism. In Chapter 3, Crotty examines the domestic economic problems and policies that constitute the building blocks of Keynes' General Theory. In the article analyzed in Chapter 4, Crotty emphasizes the importance public investments and state planning had for Keynes in solving unemployment. He states that "a transition to full employment required a combination of macroeconomic stimulus and industrial policies – large-scale public investment to create jobs on the one hand and targeted industrial and labor market policy on the other" (p. 49). In Chapter 5, Crotty explains Keynes' thoughts on social justice. Discretionary changes in economic arrangements had been the source of social injustice for Keynes, and the government ought to take measures to alleviate this injustice. In Chapter 6, Crotty analyzes three important articles from Keynes, arguing that he had tried to depict the proper economic role of the state in the new political economic system. In this chapter, Crotty argues that Keynes had been opposed to the Labor Party's state doctrinaire socialism. However, he underlines that Keynes had emphasized the state's increasing power in controlling and directing economic forces. Crotty also examines Keynes' critical insights about the assumptions of classical theory and states that Keynes had emphasized the impossibility of the current order having a persuasive argument supporting the classical approach. In Chapter 7, he presents the causes of the destructive disequi-

librium dynamics and the importance macro policy and industrial policy had for Keynes. The article analyzed in Chapter 8 is interpreted as a more detailed form of Liberal Socialism and a detailed analysis of the institutions that regulate capital accumulation in pursuit of full employment under this new political economic system. Accordingly, the operation of non-oligopolistic firms in this system would be left to the market economy. On the other hand, a significant part of the country's capital stock would be controlled by publicly owned and state-influenced entrepreneurs. Public or semi-public institutions would control major capital investment projects through the Board of National Investment. In Chapter 9, Crotty moves on to put forward arguments that support and complement Keynes' radical ideas from the previous chapter. In Chapter 10, Crotty examines how Keynes' thought about the nature of financial markets in the early 1930s. According to Crotty, Keynes' observations during his trip to the United States in 1931 further supported the development of Keynes' radical ideas. This trip also mediated the development of Keynes' ideas about the national self-sufficiency, which he characterized as being independent from the global economy as much as possible. The book explains these ideas in Chapter 11, with Crotty explaining that Keynes had emphasized the need to protect trade and control of international capital flows in order to achieve full employment over the long run.

Part II of the book analyzes Keynes's General Theory. Crotty asserts the General Theory to be "the ultimate defense in theory of Keynes's radical policy agenda" (p. 159). This part contains nine chapters, from Chapter 12 to Chapter 20. Chapter 12 is about Keynes's methodology. Crotty presents how Keynes' methodology had differed from the positivism of mainstream theory. In this chapter, Crotty emphasizes that Keynes had criticized classical theory for its failure to construct a realistic theory of capitalism and reveals that Keynes had attacked the assumptions of classical theory that did not reflect the actual facts of the different varieties of capitalism. Keynes' general theory of capitalism had been "the special case embedded in classical theory" (p. 164). For Keynes, "a theory must begin with a set of assumptions that realistically describes the historically specific institutions and behaviors that constitute actually existing capitalism in any particular place and time" (p. 164). Therefore, the prosperity British capitalism had had in the 19th century based on unique historical conditions had reflected these ideas of Keynes. It reflected not the general case but a special one that had arisen from certain factors specific to that period. Because these factors had vanished by the interwar period, this era had come to an end. Thus for Keynes, British capitalism needed to be replaced by a new political economic system: Liberal Socialism.

Crotty presents five different applied models using a simple abstract model that determines employment and income within the General Theory. These applied models reflect different aspects of economic activity in the capitalist economy. The book discusses these models' features in Chapters 13 through 19. Model 1 is presented in Chapters 13 and 14 as “a long-term model of sustained high unemployment” (p. 165), namely the *secular stagnation* model. For Crotty, secular stagnation is “a chronic tendency of mature capitalist economies” (p. 175), and Keynes presented the three main causes of this problem. The first reason is decreases in investment levels due to lower expected profit rates or marginal efficiency of capital. The second reason is decreases in the marginal propensity to consume due to higher income and wealth inequality. For these two reasons, both investment levels and the value of the investment multiplier are insufficient for eliminating high unemployment. The third reason is the inability to sufficiently reduce the long-term interest rate for encouraging investments. Decreased interest rates both contribute to social justice and increase investments and capital stocks to achieve sustained full employment. The long-term scarcity value of capital decreases or even disappears with increases in capital stock. This is what Keynes tried to explain with the “euthanasia of the rentier,” which he described as a functionless investor. Chapter 15 introduces Model 4, which is based on the effects of wage and price deflation. Model 5's characteristics are introduced in Chapters 16 and 17. Crotty refers to Model 5 as “a very-short-run quasi-model or mini-model of periods or points of extreme instability or crises, especially in financial markets” (p. 165). He argues that, for Keynes, financial markets are the major cause for the decline in real investments and volatility in these investments. In the interwar period in Britain and especially in the USA, the decision-making about capital investment shifted from the investing corporation to the stock market, and the fact that the stock market, being dominated by short-term speculators, was “an insane human gambling casino” (p. 239) made the economy more volatile. These effects, coupled with radical uncertainty, contributed to business cycles. Finally, Model 3 is presented in Chapter 18, and Model 2 is introduced in Chapter 19.

In Chapter 20, Crotty presents convincing evidence in support of the idea that the General Theory is how Keynes defended his radical policies on evolving toward Liberal Socialism in order to achieve objectives such as sustaining full employment, drastically reducing income and wealth inequality, and having a comprehensive social welfare system. These policies are as follows: First, because only public investments have a multiplier effect on equilibrium income, these investments ought to be increased. Second, financial markets are the primary cause of instability in the

economy and volatility in investments and can generate severe depressions under high financial fragility. Thus, supportive policies ought to be designed to eliminate the link between private financial markets and capital investment, and financial transactions ought to be taxed. Third, the majority of long-term, large-scale investments such as infrastructure, transportation, and public utilities ought to be state-controlled. Fourth, increasing public investments should be accompanied by redistributing income to encourage the propensity to consume. Progressive income taxes and estate or death taxes can be used as a means for redistributing income. Fifth, without capital control, it is not possible for a country to unilaterally reduce its interest rates in order to promote investments and employment. Finally, Keynes emphasized the “socialization of investment.” Although he refrained from clearly defining investment allocation for social purposes or state control during the investment process, his attention to the question of how and by whom the intervention should be carried out would be a resource for solving possible moral-political problems.

The third part of the book analyzes Keynes’s work post-General Theory. In this last part, which consists of three chapters, Crotty examines in detail how Keynes designed his vision of Liberal Socialism. In Chapter 21, Crotty discusses Keynes’ thoughts from 1936 to 1939 and argues in Chapter 22 that Keynes had been the most influential figure in Britain’s postwar economic planning and had tried to put his radical ideas into practice. Keynes had presented a three-stage plan. He described the new political economic system that would emerge by adopting this plan. In the last chapter, Crotty discusses the relevance Keynes’ thoughts have in solving today’s economic problems. Crotty suggests that Liberal Socialism is not politically viable today. However, Keynes’ radical ideas contain lessons from which we can learn. Four important policy proposals are: making a larger share of the total national investment expenditures through state coordination, regulating financial markets, making policies to reduce income and wealth inequality, and integrating into the global system through capital controls and managed trade.

Crotty fundamentally draws on two intellectual antecedents: Karl Marx and John Maynard Keynes. To overcome secular stagnation, Crotty’s assertion that Keynes had wanted to replace capitalism with Liberal Socialism brings him closer to Karl Marx. However, Crotty does not mention the proletarian revolution that had been created by the combined effect of class-consciousness and depressions as with Marx. Crotty instead emphasizes that Keynes had envisaged capitalism as a form of public-private cooperation that, unlike mainstream economics, would in-

stead have a more planned or state-oriented economic system. However, “markets, monetary incentives, and freedom of consumer choice are allowed to exist in some form, even if most important economic decisions are determined collectively via democratic political processes before people get to choose in the marketplace” (p. 303). From this aspect, Crotty’s work is an assertive book contrary to the general consensus on Keynes’ thoughts. By focusing on Keynes’s critiques of the classical perspective in terms of theory, policy, and methodology and on the bulk of Keynes’s work in the interwar period, Crotty has made comprehensive and perceptive contributions. Furthermore, he has shed light on the problems of present-day capitalism through Keynes-inspired policies.

References

- Backhouse, R. E., & Bateman, B. W. (2011). *Capitalist revolutionary: John Maynard Keynes*. Cambridge, MA: Harvard University Press.
- O’Donnell, R. (1996). John Maynard Keynes Yesterday, today and tomorrow. *History of Economics Review*, 25(1), 1–13.
- Skidelsky, R. (2009). *Keynes: The return of the master*. New York, NY: Public Affairs.