Political Aspects of Full Employment[1] [1]

(1943)

I

1. A solid majority of economists is now of the opinion that, even in a capitalist system, full employment may be secured by a government spending programme, provided there is in existence adequate plan to employ all existing labour power, and provided adequate supplies of necessary foreign raw-materials may be obtained in exchange for exports.

If the government undertakes public investment (e.g. builds schools, hospitals, and highways) or subsidizes mass consumption (by family allowances, reduction of indirect taxation, or subsidies to keep down the prices of necessities), and if, moreover, this expenditure is financed by borrowing and not by taxation (which could affect adversely private investment and consumption), the effective demand for goods and services may be increased up to a point where full empolyment is achieved. Such government expenditure increases employment, be it noted, not only directly but indirectly as well, since the higher incomes caused by it result in a secondary increase in demand for consumer and investment goods.

2. It may be asked where the public will get the money to lend to the government if they do not curtail their investment and consumption. To understand this process it is best, I think, to imagine for a moment that the government pays its suppliers in government securities. The suppliers will, in general, not retain these securities but put them into circulation while buying other goods and services, and so on, until finally these securities will reach persons or firms which retain them as interest-yielding assets. In any period of time the total increase in government securities in the possession (transitory or final) of persons and firms will be equal to the goods and services sold to the government. Thus what the economy lends to the government are goods and services whose production is 'financed' by government

[1] This article corresponds roughly to a lecture given to the Marshall Society in Cambridge in the spring of 1942.

securities. In reality the government pays for the services, not in securities, but in cash, but it simultaneously issues securities and so drains the cash off; and this is equivalent to the imaginary process described above.

What happens, however, if the public is unwilling to absorb all the increase in government securities? It will offer them finally to banks to get cash (notes or deposits) in exchange. If the banks accept these offers, the rate of interest will be maintained. If not, the prices of securities will fall, which means a rise in the rate of interest, and this will encourage the public to hold more securities in relation to deposits. It follows that the rate of interest depends on banking policy, in particular on that of the central bank. If this policy aims at maintaining the rate of interest at a certain level, that may be easily achieved, however large the amount of government borrowing. Such was and is the position in the present war. In spite of astronomical budget deficits, the rate of interest has shown no rise since the beginning of 1940.

3. It may be objected that government expenditure financed by borrowing will cause inflation. To this it may be replied that the effective demand created by the government acts like any other increase in demand. If labour, plants, and foreign raw materials are in ample supply, the increase in demand is met by an increase in production. But if the point of full employment of resources is reached and effective demand continues to increase, prices will rise so as to equilibrate the demand for and the supply of goods and services. (In the state of over-employment of resources such as we witness at present in the war economy, an inflationary rise in prices has been avoided only to the extent to which effective demand for consumer goods has been curtailed by rationing and direct taxation.) It follows that if the government intervention aims at achieving full employment but stops short of increasing effective demand over the full employment mark, there is no need to be afraid of inflation.[2]

[2] Another problem of a more technical nature is that of the national debt. If full employment is maintained by government spending financed by borrowing, the national debt will continuously increase. This need not, however, involve any disturbances in output and employment, if interest on the debt is financed by an annual capital tax. The current income, after payment of capital tax, of some capitalists will be lower and of some higher than if the national debt had not increased, but their aggregate income will remain unaltered and their aggregate consumption will not be likely to change significantly. Further, the inducement to invest in fixed capital is not affected by a capital tax because it is paid on any type of wealth. Whether an amount is held in cash or government securities or invested in building a factory, the same capital tax is paid on it and thus the comparative advantage is unchanged. And if investment is financed by loans it is clearly not affected by a capital tax because if does not mean an increase in wealth of the investing entrepreneur. Thus neither capitalist consumption nor investment is affected by the rise in the national debt if interest on it is financed by an annual capital tax. [See 'A Theory of Commodity, Income, and Capital Taxation', this volume.]

II

1. The above is a very crude and incomplete statement of the economic doctrine of full employment. But it is, I think, sufficient to acquaint the reader with the essence of the doctrine and so enable him to follow the subsequent discussion of the *political* problems involved in the achievement of full employment.

In should be first stated that, although most economists are now agreed that full employment may be achieved by government spending, this was by no means the case even in the recent past. Among the opposers of this doctrine there were (and still are) prominent so-called 'economic experts' closely connected with banking and industry. This suggests that there is a political background in the opposition to the full employment doctrine, even though the arguments advanced are economic. That is not to say that people who advance them do not believe in their economics, poor though this is. But obstinate ignorance is usually a manifestation of underlying political motives.

There are, however, even more direct indications that a first-class political issue is at stake here.[2] In the great depression in the 1930s, big business consistently opposed experiments for increasing employment by government spending in all countries, except Nazi Germany. This was to be clearly seen in the USA (opposition to the New Deal), in France (the Blum experiment), and in Germany before Hitler.[3] The attitude is not easy to explain. Clearly, higher output and employment benefit not only workers but entrepreneurs as well, because the latter's profits rise. And the policy of full employment outlined above does not encroach upon profits because it does not involve any additional taxation. The entrepreneurs in the slump are longing for a boom; why do they not gladly accept the synthetic boom which the government is able to offer them? It is this difficult and fascinating question with which we intend to deal in this article.

The reasons for the opposition of the 'industrial leaders' to full employment achieved by government spending may be subdivided into three categories: (i) dislike of government interference in the problem of employment as such; (ii) dislike of the direction of government spending (public investment and subsidizing consumption); (iii) dislike of the social and political changes resulting from the *maintenance* of full employment. We shall examine each of these three categories of objections to the government expansion policy in detail.

2. We shall deal first with the reluctance of the 'captains of industry' to accept government intervention in the matter of employment. Every widening of state activity is looked upon by business with suspicion, but the creation of employment by government spending has a special aspect which makes the opposition particularly intense. Under a *laissez-faire* system the level of employment depends to a great extent on the so-called state of confidence. If this deteriorates, private investment declines, which results in a fall of output and employment (both directly and through the secondary effect of the fall in incomes upon consumption and investment). This gives the capitalists a powerful indirect control over government policy: everything which may shake the state of confidence must be carefully avoided because it would cause an economic crisis. But once the government learns the trick of increasing employment by its own purchases, this powerful controlling device loses its effectiveness. Hence budget deficits necessary to carry out government intervention must be regarded as perilous. The social function of the doctrine of 'sound finance' is to make the level of employment dependent on the state of confidence.

3. The dislike of business leaders for a government spending policy grows even more acute when they come to consider the objects on which the money would be spent: public investment and subsidizing mass consumption.

The economic principles of government intervention require that public investment should be confined to objects which do not compete with the equipment of private business (e.g. hospitals, schools, highways). Otherwise the profitability of private investment might be impaired, and the positive effect of public investment upon employment offset, by the negative effect of the decline in private investment. This conception suits the businessmen very well. But the scope for public investment of this type is rather narrow, and there is a danger that the government, in pursuing this policy, may eventually be

tempted to nationalize transport or public utilities so as to gain a new sphere for investment.[3]

One might therefore expect business leaders and their experts to be more in favour of subsidising mass consumption (by means of family allowances, subsidies to keep down the prices of necessities, etc.) than of public investment; for by subsidizing consumption the government would not be embarking on any sort of enterprise. In practice, however, this is not the case. Indeed, subsidizing mass consumption is much more violently opposed by these experts than public investment. For here a moral principle of the highest importance is at stake. The fundamentals of capitalist ethics require that 'you shall earn your bread in sweat'—unless you happen to have private means.

4. We have considered the political reasons for the opposition to the policy of creating employment by government spending. But even if this opposition were overcome—as it may well be under the pressure of the masses—the *maintenance* of full employment would cause social and political changes which would give a new impetus to the opposition of the business leaders. Indeed, under a regime of permanent full employment, the 'sack' would cease to play its role as a disciplinary measure. The social position of the boss would be undermined, and the self-assurance and class-consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tension. It is true that profits would be higher under a regime of full employment than they are on the average under *laissez-faire*; and even the rise in wage rates resulting from the stronger bargaining power of the workers is less likely to reduce profits than to increase prices, and thus adversely affects only the rentier interests. But 'discipline in the factories' and 'political stability' are more appreciated than profits by business leaders. Their class instinct tells them that lasting full employment is unsound from their point of view, and that unemployment is an integral part of the 'normal' capitalist system.

[3] It should be noted here that investment in a nationalized industry can contribute to the solution of the problem of unemployment only if it is undertaken on principles different from those of private enterprise. The government must be satisfied with a lower net rate of return than private enterprise, or it must deliberately time its investment so as to mitigate slumps.

III

1. One of the important functions of fascism, as typified by the Nazi system, was to remove capitalist objections to full employment.

The dislike of government spending policy as such is overcome under fascism by the fact that the state machinery is under the direct control of a partnership of big business with fascism. The necessity for the myth of 'sound finance', which served to prevent the government from offsetting a confidence crisis by spending, is removed. In a democracy, one does not know what the next government will be like. Under fascism there is no next government.

The dislike of government spending, whether on public investment or consumption, is overcome by concentrating government expenditure on armaments. Finally, 'discipline in the factories' and 'political stability' under full employment are maintained by the 'new order', which ranges from suppression of the trade unions to the concentration camp. Political pressure replaces the economic pressure of unemployment.

2. The fact that armaments are the backbone of the policy of fascist full employment has a profound influence upon that policy's economic character. Large-scale armaments are inseparable from the expansion of the armed forces and the preparation of plans for a war of conquest. They also induce competitive rearmament of other countries. This causes the main aim of spending to shift gradually from full employment to securing the maximum effect of rearmament. As a result, employment becomes 'over-full'; not only is unemployment abolished, but an acute scarcity of labour prevails. Bottlenecks arise in every sphere, and these must be dealt with by the creation of a number of controls. Such an economy has many features of a planned economy, and is sometimes compared, rather ignorantly, with socialism. However, this type of planning is bound to appear whenever an economy sets itself a certain high target of production in a particular sphere, when it becomes a target economy of which the armament economy is a special case. An armament economy involves in particular the curtailment of consumption as compared with that which it could have been under full employment.[4]

The fascist system starts from the overcoming of unemployment, develops into an armament economy of scarcity, and ends inevitably in war.

IV

1. What will be the practical outcome of the opposition to a policy of full employment by government spending in a capitalist democracy? We shall try to answer this question on the basis of the analysis of the reasons for this opposition given in section II. We argued there that we may expect the opposition of the leaders of industry on three planes: (i) opposition on principle to government spending based on a budget deficit; (ii) opposition to this spending being directed either towards public investment—which may foreshadow the intrusion of the state into the new spheres of economic activity—or towards subsidizing mass consumption; (iii) opposition to *maintaining* full employment and not merely preventing deep and prolonged slumps.

Now it must be recognized that the stage at which 'business leaders' could afford to be opposed to *any* kind of government intervention to alleviate a slump is more or less past. Three factors have contributed to this: (i) very full employment during the present war; (ii) development of the economic doctrine of full employment; (iii) partly as a result of these two factors, the slogan 'Unemployment never again' is now deeply rooted in the consciousness of the masses. This position is reflected in the recent pronouncements of the 'captains of industry' and their experts.[5] The necessity that 'something must be done in the slump' is agreed; but the fight continues, firstly, as to *what* should be done in the slump (i.e. what should be the direction of government intervention) and secondly, that it should be done *only* in the slump (i.e. merely to alleviate slumps rather than to secure permanent full employment).

2. In current discussions of these problems there emerges time and again the conception of counteracting the slump by stimulating *private* investment. This may be done by lowering the rate of interest, by the reduction of income tax, or by subsidizing private investment directly in this or another form. That such a scheme should be attractive to business is not surprising. The entrepreneur remains the medium through which the intervention is conducted. If he does not feel confidence in the political situation, he will not be bribed into investment. And the intervention does not involve the government either in 'playing with' (public) investment or 'wasting money' on subsidizing consumption.

It may be shown, however, that the stimulation of private investment does not provide an adequate method for preventing mass unemployment. There are two alternatives to be considered here. (i) The rate of interest or income tax (or both) is reduced sharply in the slump and increased in the boom. In this case, both the period and the amplitude of the business cycle will be reduced, but employment not only in the slump but even in the boom may be far from full, i.e. the average unemployment may be considerable, although its fluctuations will be less marked. (ii) The rate of interest or income tax is reduced in a slump but *not* increased in the subsequent boom. In this case the boom will last longer, but it must end in a new slump: one reduction in the rate of interest or income tax does not, of course, eliminate the forces which cause cyclical fluctuations in a capitalist economy. In the new slump it will be necessary to reduce the rate of interest or income tax again and so on. Thus in the not too remote future, the rate of interest would have to be negative and income tax would have to be replaced by an income subsidy. The same would arise if it were attempted to *maintain* full employment by stimulating private investment: the rate of interest and income tax would have to be reduced continuously.[4]

In addition to this fundamental weakness of combating unemployment by stimulating private investment, there is a practical difficulty. The reaction of the entrepreneurs to the measures described is uncertain. If the downswing is sharp, they may take a very pessimistic view of the future, and the reduction of the rate of interest or income tax may then for a long time have little or no effect upon investment, and thus upon the level of output and employment.

3. Even those who advocate stimulating private investment to counteract the slump frequently do not rely on it exclusively, but envisage that it should be associated with public investment. It looks at present as if business leaders and their experts (at least some of them) would tend to accept as a *pis aller* public investment financed by borrowing as a means of alleviating slumps. They seem, however, still to be consistently opposed to creating employment by subsidizing consumption and to *maintaining* full employment.

This state of affairs is perhaps symptomatic of the future economic regime of capitalist democracies. In the slump, either under the pressure of the masses, or even without it, public investment financed by borrowing will be undertaken to prevent large-scale unemployment. But if attempts are made to apply this method in order to maintain the high level of employment reached in the subsequent boom, strong opposition by business leaders is likely to be encountered. As has already been argued, lasting full employment is not at all to their liking. The workers would 'get out of hand' and the 'captains of industry' would be anxious to 'teach them a lesson'. Moreover, the price increase in the upswing is to the disadvantage of small and big rentiers, and makes them 'boom-tired'.

[4] A rigorous demonstration of this is given in my article to be published in *Oxford Economic Papers*. [See 'Full Employment by Stimulating Private Investment?', below.]

In this situation a powerful alliance is likely to be formed between big business and rentier interests, and they would probably find more than one economist to declare that the situation was manifestly unsound. The pressure of all these forces, and in particular of big business—as a rule influential in government departments—would most probably induce the government to return to the orthodox policy of cutting down the budget deficit. A slump would follow in which government spending policy would again come into its own.

This pattern of a political business cycle is not entirely conjectural; something very similar happened in the USA in 1937–8. The breakdown of the boom in the second half of 1937 was actually due to the drastic reduction of the budget deficit. On the other hand, in the acute slump that followed the government promptly reverted to a spending policy.

The regime of the political business cycle would be an artificial restoration of the position as it existed in nineteenth-century capitalism. Full employment would be reached only at the top of the boom, but slumps would be relatively mild and short-lived.[6]

V

1. Should a progressive be satisfied with a regime of the political business cycle as described in the preceding section? I think he should oppose it on two grounds: (i) that it does not assure lasting full employment; (ii) that government intervention is tied to public investment and does not embrace subsidizing consumption. What the masses now ask for is not the mitigation of slumps but their total abolition. Nor should the resulting fuller utilization of resources be applied to unwanted public investment merely in order to provide work. The government spending programme should be devoted to public investment only to the extent to which such investment is actually needed. The rest of government spending necessary to maintain full employment should be used to subsidize consumption (through family allowances, old-age pensions, reduction in indirect taxation, and subsidizing necessities). Opponents of such government spending say that the government will then have nothing to show for their money. The reply is that the counterpart of this spending will be the higher standard of living of the masses. Is not this the purpose of all economic activity?

2. 'Full employment capitalism' will, of course, have to develop new social and political institutions which will reflect the increased power of the working class. If capitalism can adjust itself to full employment, a fundamental reform will have been incorporated in it. If not, it will show itself an outmoded system which must be scrapped.

But perhaps the fight for full employment may lead to fascism? Perhaps capitalism will adjust itself to full employment in *this* way? This seems extremely unlikely. Fascism sprang up in Germany against a background of tremendous unemployment, and maintained itself in power through securing full employment while capitalist democracy failed to do so. The fight of the progressive forces for all employment is at the same time a way of *preventing* the recurrence of fascism.

PART 6

Full Employment

Political Aspects of Full Employment

[1]

First published in *Political Quarterly*, 14/4, 1943, pp. 322–31. An abbreviated Polish edition appeared in *Ekonomista*, 5, 1961, pp. 1072–6, and subsequently in 2 collections of Kalecki's essays: *Szkice o funkcjonowaniu współczesnego kapitalizmu* (On the Functioning of Contemporary Capitalism), Warsaw, PWN, 1962, pp. 11–19, and *Z ostatniej fazy przemian kapitalizmu* (The Last Phase in the Transformation of Capitalism), Warsaw, PWN, 1968, pp. 21–9.

The abbreviated version has had several translations: Spanish ('Aspectos politicos del pleno empleo', *Economia y Administración*, 16 (University of Concepción), 1970, pp. 57–61, and in M. Kalecki, *Sobre el capitalismo contemporaneo*, Barcelona, Editorial Crítica, 1979, pp. 25–34); Italian (in M. Kalecki, *Sul capitalismo contemporaneo*, Rome, Editori Riuniti, 1975, pp. 35–42); Swedish (in Kalecki, *Tillväxt och Stagnation*, pp. 45–51); German (in Kalecki, *Werkauswahl*, pp. 182–90, and in Kalecki, *Kriese und Prosperität*, pp. 235–41); and Portuguese (in M. Kalecki, *Crescimento o ciclo das economias capitalistas*, ed. J. Miglioli, São Paulo, Editora Hucitec, 1977; 2nd edn., 1980). The same abbreviated version was published in English, in Kalecki, *Selected Essays on the Dynamics of a Capitalist Economy*, pp. 138–45 (for translations of this collection, see pp. 436–7 above), and in Kalecki, *The Last Phase in the Transformation of Capitalism*, New York and London, Monthly Review Press, 1972, pp. 75–83.

The original English version was reprinted in E. K. Hunt and J. G. Schwartz (eds.), *A Critique of Economic Theory*, Harmondsworth, Penguin, 1972, pp. 420–30.

In the present volume the original edition is followed, while the abbreviations introduced by Kalecki in 1961 are accounted for in subsequent editorial notes. The publishers' permission to reprint this paper is gratefully acknowledged.

At the turn of 1940 Kalecki moved to Oxford to join the staff of the Oxford University Institute of Statistics. With the outbreak of war, the institute gave shelter to a number of economists who were in various degrees refugees from German fascism (including among others F. Burchardt, T. Balogh, J. Goldman, J. Steindl, and K. Mandelbaum). Among the English members of the staff were G. D. N. Worswick and J. N. Nicholson. The institute was directed by a distinguished English statistician, Prof. Arthur L. Bowley. In the next few years the institute gained international fame for its studies on the British war economy. Kalecki dealt with questions of mobilization of factors of production and manpower for the war effort, financing the war, food rationing, and price controls (Kalecki was the first to put forward, in the institute's bulletin, a plan for rationing expenditure on consumption), distribution of the war burden and national income between social classes, the burden of the national debt, and full employment after the post-war reconstruction (for an account of Kalecki's contributions to the work of the institute, see G. D. N. Worswick, 'Kalecki at Oxford, 1940–44', *Oxford Bulletin of Economics and Statistics*, 39/1, 1977: *Special Issue: Michal Kalecki Memorial Lectures*; see also *Collected Works*, vol. vi, and *Studies in War Economics* (prepared at the Oxford University Institute of Statistics), Oxford, Blackwell, 1947).

In Oxford Kalecki also gave lectures in which he reported the results of his research. In 1943 his *Studies in Economic Dynamics* appeared (see *Collected Works*, vol. ii), representing the next step in the development of his business cycle theory; this for the first time included elements of long-run development of a capitalist economy.

Both his studies of war economics and of cyclical and long-run changes in capitalist reproduction influenced Kalecki's publications on full employment. His theory of full employment is rooted in his business cycle theory and his ideas on national income determination; in his papers devoted to full employment, he stressed some more practical aspects of full employment policy, and institutional factors determining its scope and limits. In addition to examining the causes for political opposition to full employment—a question hardly dealt with in his earlier studies—his essays on full employment brought together his ideas on capital and income taxation (see pp. 324–5 above), the burden on the national debt (see *Collected Works*, vol. vi), the structure of total demand and government expenditures (see 'Employment in the United Kingdom during and after the Transition Period', in *Collected Works*, vol. vi), and long-run unemployment in relation to capitalist long-run economic development (see his *Studies in Economic Dynamics*, in *Collected Works*, vol. ii).

Towards the end of 1944 Kalecki resigned his job at the Institute of Statistics. After a short stay in Paris, where he prepared some memoranda for the French government on rationing and economic controls (see *Collected Works*, vol. vii), in Mar. 1945 he left for Montreal. There, until Dec. 1946, he worked for the International Labour Office. His studies at the ILO mainly concerned the problems of post-war reconstruction and of maintaining full employment, as well as the questions of inflation (in that period he gave several lectures and seminars on various aspects of full employment, among others at the University of Chicago, at Columbia and Harvard Universities, and in Ottawa). He continued those studies after he left the ILO and moved to the United Nations, where he worked until the end of 1954 as the Deputy

Director of the Economic Department in the UN Secretariat (for information on Kalecki's work for the UN, see S. Dell, 'Kalecki at the United Nations, 1946–54', *Oxford Bulletin of Economics and Statistics*, 39/1, 1977, and *Collected Works*, vol. vii).

Shortly after 'Political Aspects of Full Employment' was published, Keynes sent Kalecki the following note, dated 20 Dec. 1943 (the original survived in Kalecki's papers):

> I have just read with much sympathy and interest your article on Political Aspects of Full Employment in Pl. Q. An exceedingly good article and very acute. If I have been writing it myself, I might have added as an important influence—[disintegrating (?) *illegible handwriting*] old fashioned sound finance which [resists (?) *illegible*] against any public expenditures and a high deficit [. . . (?) *last word unintelligible*].

In spite of this commendation, Kalecki's article did not arouse wider interest for a long time. The reason could have been that there had been a high employment rate in all countries during the war, and the problem of maintaining full employment in the period of post-war reconstruction and later on did not at that time (1943) attract much attention; nor did the subsequent post-war boom leave much room for his pessimistic forecasts.

None the less, in 1948 S. S. Alexander arrived at similar conclusions with respect to capitalists' opposition to government intervention in the realm of private business, budget deficits, and the maintenance of full employment (see S. S. Alexander, 'Opposition to Deficit Spending for the Prevention of Unemployment', in *Income, Employment and Public Policy: Essays in Honour of Alvin H. Hansen*, New York, Norton, 1948; see also Feiwell, *The Intellectual Life of Michal Kalecki*, pp. 221–6). Andvig notes that Johan Åkerman tried to relate political events and business cycles as early as the 1930s, and that therefore he 'can be regarded as a predecessor, together with Kalecki, to the recent crop of political business cycle theorists' (Andvig, *Ragnar Frisch and the Great Depression*, p. 297).

Twenty years later, in the Preface to his essays on the functioning of contemporary capitalism (*Szkice o funkcjonowaniu . . .*, pp. 7–8) Kalecki had this to say about the forecasts in 'Political Aspects of Full Employment':

> Have my predictions of that time proved correct? I think they have, though—as is often the case with historical predictions, not necessarily in every detail. In my paper, after examining the sources of opposition of big capital against stimulating the business cycle by means of government spending, I foresaw that in future crises will be mitigated in this way but not wholly prevented. I also predicted that this government intervention would give rise to a new phenomenon which I called the 'political business cycle'. It seems that the present course of events corresponds *grosso modo* with those predictions. On the other

hand, in my article the policy of securing full employment by military spending was linked with total fascism. It appears, however, that a fascist coup is by no means necessary for armaments to play an important role in countering mass unemployment. Yet, it must be noted that in the United States, where this process was most intensive, there have indeed appeared some symptoms of fascism.

Joan Robinson was first to stress, in 1964, the relevance of the idea of a 'political business cycle' for understanding post-war capitalist development (see her 'Kalecki and Keynes', and also 'The Second Crisis of Economic Theory', in her *Collected Economic Papers*, vol. iv, Oxford, Blackwell, 1973). However, increased interest in Kalecki's 'Political Aspects of Full Employment' did not appear until the mid-1970s. This followed reprints of Kalecki's paper in 1971–3, in a period of prolonged depression in many developed capitalist economies, and of overall political and social tensions, generated among other things by a 'political business cycle'. Kalecki's concept was discussed and developed at that time by R. Boddy and J. Crotty (see their 'Class Conflict and Macropolicy: The Political Business Cycle', *Review of Radical Political Economy*, 7/1, 1974; and 'Class Conflict, Keynesian Policies and the Business Cycle', *Monthly Review*, 24, 1974), and by W. D. Nordhaus ('The Political Business Cycle', *Review of Economic Studies*, 42, 1975); G. R. Feiwell devoted a chapter of his 1975 monography on Kalecki to this concept (*The Intellectual Life of Michal Kalecki*, ch. 9); and a more recent study is A. Henley, 'Political Aspects of Full Employment: A Reassessment of Kalecki', *Political Quarterly*, 59/4, 1988.

Interestingly, several features of a political business cycle are implied in the editorial 'The Economy in Second Gear' of the *Washington Post*, 22 Oct. 1976, which discussed developments in the American economy in the third quarter of 1976:

President Ford has certainly resisted—to a fault, you might say—the traditional quadrennial temptation to spritz up the economy for election day. Four years ago President Nixon and his associates seized all the valves that they could reach and turned them up to Full and Hot. Immediately after the election, they turned most of them off again. That surge of pre-election stimulus no doubt contributed to Mr Nixon's re-election, but it also contributed to the economy's subsequent troubles. Mr Ford's performance has been absolutely characteristic. It was a decent and conservative refusal to give the economy a temporary tonic for the campaign season.

A concise comparison of Kalecki's and Keynes's approaches to full-employment policy was given by Joan Robinson in her 'Michał Kalecki: A Neglected Prophet', *New York Review of Books*, 4 Mar. 1976:

Keynes liked to believe in the power of ideas to influence the course of history. He sometimes maintained that when the principles of employment policy were understood, economic affairs would be conducted rationally, and he even went so far as to predict a happy future in which our grandchildren could devote themselves entirely to the arts and graces of life.

Kalecki's vision of the future was more realistic. In a remarkable article published in 1943 on the 'Political Aspects of Full Employment' he foresaw that when governments understood how to control the commercial trade cycle we should find ourselves in a political trade cycle. . . . This was fairly accurate prediction of what we have experienced, both in the US and in Britain, in the last thirty years of alternating *go* and *stop*.

Kalecki's diagnosis underestimated what turned out to be the effects of the balance of payments in the British case, and the interplay between hot and cold war in the US. He also underestimated the importance of the financial policy and of exchange rates, putting his main emphasis on the role of government spending. But his analysis has certainly turned out to be nearer the mark than Keynes's agreeable daydream.

One sign of the popularity of Kalecki's concept was that it entered some popular textbooks in economics (see e.g. P. A. Samuelson, *Economics*, 10th and subsequent edns.). Indeed, by the late 1970s the concept had started to live a separate life from the rest of Kalecki's theory, its origin being often credited to Nordhaus rather than to Kalecki. (For a review, classification, and critique of several models of the political business cycle, see e.g. B. S. Frey, 'Politico-Economic Models and Cycles', *Journal of Public Economics*, 9, 1978; J. E. Alt and K. A. Chrystal, *Political Economics*, Berkeley, Calif., Univ. of California Press, 1983, ch. 5; for an extension of the concept to socialist economies and for a bibliography of the subject, see D. M. Nuti, 'Political and Economic Fluctuations in the Socialist System', *EUI Working Papers*, 156, 1985.)

There have been many attempts to test the concept empirically too, especially in the version elaborated by W. D. Nordhaus and related to the 'electoral business cycle' hypothesis. On the whole the evidence appears either negative or inconclusive, both for individual countries, big or small. See e.g. F. Breuss, 'The Political Business Cycle: An Extension of Nordhaus's Model', *Empirica*, 2, 1980, and G. Obermann, 'Zur Wahlorientierung in der Wirtschaftspolitik', *Arbeitshefte Wirtschaftsuniversität Wien*, 18, 1979, who reject it for Austria and some other small European countries; W. F. Shughart II and R. D. Tollison, 'Legislation and Political Business Cycles', *Kyklos*, 38, 1985, and J. Sachs and A. Alesina, 'Political Parties and the Business Cycle in the United States, 1948–1984', *NBER Working Paper*, No. 1940, Washington, DC, NBER, 1986, who deny its relevance for the USA. The same appears to be true larger samples of countries (cf. B. H. Soh, 'Political Business Cycles in Industrialized Democratic Countries', *Kyklos*, 39, 1986; see also E. Novotny, 'Politische Aspekte der Vollbeschäftigung—heute', in Fink *et al.* (eds.), *Economic Theory, Political Power, and Social Justice*.

In his concept of the political business cycle, Kalecki concentrated attention on the economic interests of the capitalists and the masses from the viewpoint of the achievement and permanent maintenance of full employment. However, he did not elaborate the actual mechanism of transmission between the economic interests of his two classes on the one hand and the political and institutional system of the parliamentary democracy on the other. Filling this gap by reference to an electoral process and a replacement of the political by an electoral business cycle (towards which Kalecki himself tended in the original version of his theory) is unsatisfactory, for in the latter concept the distinction between social classes and their respective interests is washed away in pre-electoral manipulations aimed at gaining universal popularity. Moreover, at intervals of 4–5 years between elections, the electoral business cycle does not leave enough time for permanent full employment to influence the 'discipline in the factories' or the power of capitalist bosses; those feedbacks may need more time.

A recognition of the long-term implications of the 'political business cycle' gave rise to the concept of a 'political trend'. It sets Kalecki's explanation of the causes for the capitalists' opposition to permanent full employment into the context of a long period, and seeks to explain a shift in economic policies in the USA and other countries, in the early 1970s, as a pre-determined slow-down of economic growth, and a transition to long-run unemployment; the rise of monetarism and a rebirth of *laissez-faire* doctrines are also explained in those terms (see J. Steindl, 'Stagnation Theory and Stagnation Policy', *Cambridge Journal of Economics*, 3, 1979; A. Bhaduri and J. Steindl, 'A Rise of Monetarism as a Social Doctrine', *Thames Papers in Political Economy*, autumn 1983).

However, the concept of a political trend also faces the problem of a mechanism for transmitting the economic and political interests of various classes under parliamentary democracy. Kalecki entertained the traditional Marxist view on the role of the government, which he saw as a passive instrument in the hands of capitalists. In spite of highly increased shares, in all OECD countries, of the government sector in total output and employment, Kalecki thought government economic intervention to be merely 'an offshoot of a somewhat chaotic interplay between the *laissez-faire* tendencies and government action' ('Theories of Growth in Different Social Systems', in *Collected Works*, vol. iv).

While many agree with Kalecki that the scope and means of the government's counter-cyclical intervention are the result, not of centrally planned and wholly consistent actions, but of an interplay of the contradictory interests of various social classes and their political doctrines, none the less the counter-cyclical policy is merely a part of the government's economic involvement. Moreover, the lack of success of many attempts to reduce the share of government expenditure in national income is evidence that the government is not quite omnipotent in fine-tuning its expenditures, many of which enjoy great autonomy and represent interests that cannot be unequivocally identified as those of the masses or of the capitalists. It is postulated, therefore, that in order to explain changes in government spending, which were possibly one of the main determinants of the crisis and recovery phases in capitalist reproduction from the early 1970s onwards, a more complex model of government expenditures and their structure may be needed (see J. Osiatyński, 'Kalecki's Theory of Economic Dynamics after Thirty Years', *Oeconomica Polona*, 1, 1986).

[2]
In the abbreviated version of his article, Kalecki replaced all this introductory part with the following text:

The maintenance of full employment through government spending financed by loans has been widely discussed in recent years. This discussion, however, has concentrated on the purely economic aspects of the problem without paying due consideration to political realities. The assumption that a government will maintain full employment in a capitalist economy if only it knows how to do it is fallacious. In this connection the misgivings of big business about maintenance of full employment by government spending are of paramount importance.

[3]
In the abbreviated version this sentence was deleted.

[4]
In the abbreviated version this paragraph reads:

The fact that armaments are the backbone of the policy of fascist full employment has a profound influence upon its economic character. Large-scale armaments are inseparable from the expansion of the armed forces and the preparation of plans for a war of conquest. They also include competitive rearmament of other countries. This causes the main aim of the spending to shift gradually from full employment to securing the maximum effect of rearmament. The resulting scarcity of resources leads to the curtailment of consumption compared with what it could have been under full employment.

[5]
In the abbreviated version, this and the previous sentences were deleted.

[6]
In the abbreviated version included in the 1971 (Cambridge University Press) English translation, this paragraph is omitted (probably by mistake, since it is included in all other abbreviated editions of Kalecki's article). Moreover, in the later editions Kalecki omitted also the whole of the original pt. v. Joan Robinson made the following comment on this latter omission:

These passages today seem pathetically optimistic; they are a painful reminder of what a mixed blessing thirty years of near-full employment has turned out to be. . . . The last paragraph of Kalecki's article is even more poignant to read today. . . . The failure to develop new institutions and attitudes while maintaining a more or less continuous growth of national income left no way for the workers to get a better deal, other than through traditional wage bargaining. The struggle of people to maintain their share of income, which has now spread to every group in society, is the basic cause of the inflationary stagnation which is threatening to bring the era of high employment and growth to an end. ('Michał Kalecki: A Neglected Prophet', p. 30.)

Three Ways to Full Employment

[1]

First published in *The Economics of Full Employment: Six Studies in Applied Economics prepared at the Oxford University Institute of Statistics*, Oxford, Blackwell, Oct. 1944, repr. Nov. 1944, Mar. 1945, Sept. 1945, Nov. 1946, Sept. 1947, pp. 39–58; trans. into French ('Trois méthodes de réalisation du plein emploi', in *L'Économie du plein emploi*, Paris, Institut National de la Statistique et des Études Economiques, 1949, pp. 47–67); Italian ('Tre metodi per la piena occupazione', in *L'economia della piena occupazione*, Turin, Rosenberg & Sellier, 1979, pp. 68–89); Portuguese ('Três caminhos para o pleno emprego', in J. Miglioli (ed.), *Kalecki, Economia*, São Paulo, Editora Atica, 1980, ch. 6); and German ('Drei Wege zur Vollbeschäftigung', in Kalecki, *Kriese und Prosperität*, pp. 212–34). Basil Blackwell's permission to reprint this essay is gratefully acknowledged.

During the Second World War the theory of employment—at least in the version put forward in Keynes's *General Theory*—dominated university teaching in Britain and formed the basis of official statements of British economic policy. Nevertheless, several practical and important issues, concerning specific measures of such a policy that would not be limited to counter-cyclical government intervention but would secure permanent full employment, remained unsolved. Indeed, these issues were intensely debated at the time at numerous conferences, in the Press, and in government pronouncements (see e.g. *White Paper on Employment Policy* London, HMSO, Cmd. 6527, 1944), but a systematic treatment of the subject was lacking. As observed by Joan Robinson in her review of *The Economics of Full Employment*: 'This is now provided by the economists of the Oxford Institute of Statistics, who themselves have taken a leading part in the debate' (*Economic Journal*, 55/1, 1945, p. 77).

The Economics of Full Employment consists of 6 essays. F. A. Burchardt's study, 'The Causes of Unemployment' discusses the foundations of full employment theory. Next Kalecki shows policy measures that would enable full employment to be maintained in a closed economy. G. D. N. Worswick deals with some problems that would unfold under permanent full employment: a vicious circle of rising wages and prices, and measures that would secure elasticity of output without involving administrative allocation of labour and other inputs. E. F. Schumacher extends Keynes's *General Theory* into the field of public finance. T. Balogh examines the problems of balance of payments and international trade under full employment. Finally, K. Mandelbaum discusses the German experiment in full-employment policies in 1933–8.

The book aroused great interest, and many reviews recognized Kalecki's essay as its central contribution. In Poland it was reviewed by H. Hagemejer (*Ekonomista*, 1, 1947), and Kalecki's theory of employment contained in the book was summarized by J. Nowicki (*Ekonomista*, 2, 1948). It was reviewed also by H. A. Adler (*American Economic Review*, 35/3, 1945, and by Joan Robinson (op. cit.), who concentrated on Kalecki's and Balogh's essays and pointed out that the internal and international aspects of full-employment policies were not satisfactorily integrated there.

After the publication of the book, Kalecki received the following letter from Keynes, dated 30 Dec. 1944. (The original is kept in Kalecki's papers and a copy in Keynes's papers; it was first published in *The Collected Writings of John Maynard Keynes*, vol. xxvii, London, Macmillan, 1980, pp. 381–3. Lord Kahn's permission to reproduce this letter is gratefully acknowledged.)

Dear Kalecki,

Thank you for the 'Economics of Full Employment', which reached me, as it were, as a Christmas present. I found it a most excellent and instructive volume. When one gets a book like this, one feels that economics is really making progress. With one qualification, mentioned below, I found it all very good indeed, and there is scarcely a thing with which I do not agree.

Your own contribution seems to me most striking and original, particularly pages 44–46 [362–4]; also most beautifully compressed. It is a great comfort to read something so short and so much to the point. I am very much taken with your modified incometax. It will be alleged, I am afraid, that the difficulties of transition would be excessive, since it would mean that a new business might have next to no tax to pay for years, which would appear to give it a great competitive advantage.

Nevertheless, there is, I think, a good answer to this, and such criticism, which would be certain to arise, would be based on a fallacy.

Why don't you apply it, however, to working capital also? That would have the great advantage of mitigating the effects of taxation in impairing real capital when there is an inflation and presenting windfalls when there is a deflation. Indeed, I think you can claim it as an additional merit for your plan that it goes a long way to getting over the inequalities which will arise when the level of prices at the time when depreciation is allowed is different from the level of prices when the outlay was originally incurred.

Apart from your own contribution, there is hardly an article which has not something interesting and even new. The one exception I make to this, as perhaps you will have guessed, is the section on International Aspects. This seems to me a frightful muddle, which leaves the reader more in a fog and stupider than when he began. It does not even make a beginning at the basic analysis needed to tackle this rather difficult and intractable problem. I wish I had time to think it properly through myself. It is not so difficult that it is impossible to write sense about it.