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Fiscal Fiddling Can't Stop Depression

Marx vs. Keynes

By Joseph Seymour

The deepening economic crisis has meant the loss of jobs, homes and savings for millions of working people. It has also demonstrated the utter fallacy of the economic doctrine of monetarism, which maintained that economic crises could be minimized, if not eliminated, by adjusting the amount of money in the banking system along with interest rates. Monetarism was the gospel for bourgeois economists in the right-wing climate marked by the ascendancy of Ronald Reagan and Britain's Margaret Thatcher in the 1980s. The counterrevolutionary destruction of the Soviet Union in 1991-92 and the attendant "death of communism" triumphalism in the western imperialist countries, centrally the U.S., put more wind in the sails of the "free market" ideologues of monetarism.

Today, with the monetarist myth in tatters, bourgeois economists have rushed to embrace the ideas of John Maynard Keynes, the British economist who, during the Great Depression of the 1930s, championed the notion that capitalist economic crises could be overcome through government deficit spending. That is the idea behind President Barack Obama's "stimulus" package, an expenditure of almost $800 billion financed by government borrowing that is supposed to "jump start" the economy. In reality, Keynesian economic schemes, no less than monetarist ones, run up against the destructive irrationality of the capitalist system, analyzed and explained by Karl Marx and highlighted by the boom-and-bust cycle.

The article reprinted below, first published in WV *No. 64, 14 March 1975, presents a Marxist critique of Keynes's economic theory.*

The current extremely sharp economic downturn has produced a wave of pessimism extending from the Stock Exchange and White House to the academic redoubts of bourgeois economics. While President Ford proclaims that unemployment will not drop below 8 percent again for another two years, the president of the American Economics Association, Robert A. Gordon, declares: "I don't think we have a body of economic theory that is of great help to use in today's world" (*Wall Street Journal*, 30 December 1974).

During most of the 1960s U.S. government economic policy was dominated by Kennedyesque "whiz kids" who claimed to be able to simultaneously hold down prices and stimulate investment through adroit manipulation of fiscal "levers." Now, however, with the onset of double-digit inflation and a slump of depression proportions, these claims are rapidly being debunked.

It was predictable that a world depression would lead to the collapse of optimism concerning Keynesian economic policies. The anti-Keynesian right (well represented in the Ford administration by the Ayn Randite Alan Greenspan and by former Wall Street bond dealer William Simon) had argued for years that government deficits must generate ever-increasing inflation, and now claims vindication.

Even the Keynesian liberals appear unsure of themselves, observing that the "trade-off" between inflation and unemployment has become most painful. Thus Sir John Hicks, one of the original architects of the "Keynesian Revolution," has recently brought out a book entitled, significantly, *The Crisis of Keynesian Economics*. And revisionist Marxists who had earlier written about the "relative stability of neo-capitalism" are now dusting off their copies of *Capital* and asserting that its venerable truths still haunt the capitalist world.

We are witnessing a notable intellectual convergence ranging from bourgeois reactionaries (Milton Friedman) to ostensible Marxists (Ernest Mandel), and including a number of liberals (John K. Galbraith, John Hicks, Abba Lerner): Keynesian economics, which supposedly "worked" for a generation, has now been overcome, they agree, by unprecedented global inflation and the worst crisis since 1929. Despite its widespread acceptance, however, this thesis is false. Keynesian fiscal policies never did, and never could, stop the cyclical crises of overproduction which are inherent in the capitalist system.

A major world slump as severe as the present one has been possible at least since the world recession of 1958. That such a slump did not occur before 1974 is due to contingent factors and not to the effectiveness of Keynesian countermeasures. For example, in 1967 the U.S. would have had a recession except for the expansion of the Vietnam War. Output actually did fall in the first quarter of that year and there was a 1967 recession in West Germany, then the second-largest capitalist economy. Without the sudden escalation of the Vietnam War, this conjuncture would undoubtedly have caused a world economic crisis, possibly quite severe. Only an idiot objectivist could deny this historic possibility.

The fact that a major world slump did not occur in the 20 years preceding 1974 is not due to credit inflation, an ever-increasing arms budget, Keynesian stabilization policies or any other deliberate government policy. There has been no fundamental change in the structure of postwar capitalism that would justify the various labels popular in liberal and revisionist Marxist theorizing—e.g., neo-capitalism, the mixed economy, the permanent war economy, etc.

Myths of the "Keynesian Revolution"

John Maynard Keynes was not responsible for developing or even for popularizing the policy that capitalist governments should increase their expenditures during an economic downturn, financing this through borrowing rather than increased taxation. This bourgeois reform measure has a long and respectable history going back to at least the 1890s.

Thus the minority report of the English Poor Law Commission of 1909 stated, "We think that the Government can do a great deal to regularize the aggregate demand for labour as between one year and another, by a deliberate arrangement of its work of a capital nature." In 1921 President Harding's Conference on Unemployment recommended expanded public works during the postwar downturn, a recommendation endorsed by such conservative organizations as the U.S. Chamber of Commerce.

Moreover, in 1930 a bill was introduced into the U.S. Senate (No. 3059) calling for "advanced planning and regulated construction of certain public works, for the stabilization of industry, and for the prevention of unemployment during periods of business depression." This principle was incorporated into the National Industrial Recovery Act of 1933, a half decade before the popularization of Keynesian economics.

What, then, is the significance of Keynesianism—why all the hullabaloo? While practical politicians had advocated and partly attempted expanded government expenditure during economic downturns, orthodox bourgeois economic theory (particularly in English-speaking countries) still held that slumps were easily self-correcting through a fall in the rate of interest. According to the textbooks, government policy during a downturn should be to expand bank reserves and run a balanced budget.

What Keynes did was to provide a theoretical justification, within the framework of bourgeois economic doctrine, for the deficit spending which most capitalist governments practiced in the 1930s, as well as in earlier slumps. The "Keynesian Revolution" was a revolution in university economics departments, in the writing of textbooks, not in actual government policy.

In the post-World War II period, capitalist politicians have claimed that the relative economic stability has been due to their effective use of Keynesian stabilization policies. This assertion—that capitalist governments can and do control the economy for the benefit of "the people"—is partly bourgeois propaganda and partly bourgeois false consciousness.

The notion that the proportion of government expenditure has increased greatly since World War II is so widespread that it is taken as a matter of course by virtually all political tendencies, including bourgeois reaction, Keynesian liberalism, social-democratic and Stalinist reformism, and revisionist "Marxism" à la Mandel. In truth, the supposed expanded role of state expenditure is the greatest of all myths of the "Keynesian Revolution."

It can be easily disproved by a few statistics which indicate government expenditure as a percentage of gross national product for the major capitalist powers during the interwar period (1920-39) and during the 1961-70 decade:

Country	**1921-1939**	**1961-1970**
France	14%	13%
Germany[1]	18%	16%
Great Britain[2]	21%	19%
Japan	10%	8%
United States	11%	20%

Sources: OECD, *National Accounts, 1961-1972*; U.S. Department of Commerce, *Long-Term Economic Growth, 1860-1970*; Mitchell, *Abstract of British Historical Statistics*; Stolper, *The German Economy, 1870-1940*; Maddison, *Economic Growth in the West*; Ohkawa and Rosovsky, *Japanese Economic Growth*.

[1]German interwar figures only cover 1925-39.

[2]British figures are based on national product net of depreciation, giving them a slight upward bias relative to the other countries.

These few figures utterly destroy the notion of a "Keynesian Revolution" involving major structural changes in the capitalist system following World War II. Only in the United States was there a significant rise in the level of government expenditure. In all other major capitalist countries, the weight of the state budget in the economy ***declined*** slightly. And the expanded role of the state budget in the U.S. is entirely accounted for by the greatly increased military expenditure required by the emergence of American imperialism as world gendarme in the postwar period.

Moreover, the relative weight of military expenditure in the U.S. has been steadily ***declining*** since the Korean War, except for the Vietnam War years. In 1954 (the year following the end of the Korean War) the military budget accounted for 11 percent of the U.S. gross national product (GNP); by 1965 (the year before the Vietnam buildup) the figure had fallen to 7 percent; and in 1973 military spending accounted for only 6 percent of GNP (*Economic Report of the President, 1974*). So much for the "permanent war economy" theory!

Marxism vs. Keynesianism

Before undertaking a Marxist criticism of Keynesianism it is necessary to indicate more precisely what it is that the latter asserts. According to the pre-Keynesian orthodoxy of bourgeois economics, a fall in the volume of investment that precipitated a slump would also free money capital, which in turn would enter the loan market and drive down the rate of interest. This fall in interest rates would then stimulate investment to the point that full employment of resources was restored. All the government had to do was to see that the crisis did not disorganize the banking system, i.e., to ensure that the mechanisms of credit expansion remained functioning.

Keynes accepted the theory that a sufficient fall of interest rates would restore a full-employment level of investment in a slump. His major work, *The General Theory of Employment, Interest and Money*, is an attempt to explain why such a sufficient fall of interest rates does not occur. Keynes asserted that rentiers held some notion of a normal rate of interest. If the rate falls much below this, lenders will expect it to rise again, thereby producing a capital loss on bonds purchased at the lower rates. In a general sense, Keynesianism holds that at some abnormally low rate of interest (termed the "liquidity trap") lenders will hoard money in anticipation of higher rates in the future. This is less an explanatory theory than a description of the monetary aspect of a crisis/slump.

From these premises Keynes argued that government efforts to expand money and credit during a slump would be ineffective, producing simply money hoards and/or excess bank reserves. Therefore, he argued that increased state expenditures would have to substitute for inadequate capital investment. This, in a nutshell, was the "Keynesian Revolution."

In order to understand the difference between Marxist and bourgeois (including Keynesian) analyses of economic cycles, it is necessary to take account of a fundamental difference concerning the role played by the rate of interest. In bourgeois economics the level of investment is determined by the difference between the rate of interest on borrowed money capital and the rate of profit on the physical means of production. As long as the interest rate is substantially below the profit rate entrepreneurs will presumably borrow and invest until this gap is eliminated. A historical tendency for the rate of profit to fall, projected by many bourgeois economists (including Keynes), is not viewed as a fundamental barrier to expanded production. As long as the rate of interest is sufficiently low, a full-employment level of investment is supposedly assured.

In contrast, for Marx the level of investment is determined by the rate of profit on the privately owned means of production. The interest rate is part of and governed by the profit rate on the real means of production. During a slump, despite abnormally low rates of interest, loanable capital remains unused. Thus Marx referred to "the phase of the industrial cycle immediately after a crisis, when loanable capital lies idle in great masses" (*Capital*, Vol. III, Chapter 30).

The validity of the Marxist position was demonstrated during the late 1930s when excess bank reserves (an index of the difference between actual loans and the legally authorized lending capacity) were at the highest level in U.S. history, in spite of the unusually low interest rates. The exact same phenomenon is occurring in the present depression. Bank deposits in the U.S. are now declining at an annual rate of 0.6 percent as bank loans fall, although the falling interest rates are now even lower than the rate of inflation (*International Herald Tribune*, 15-16 February). The expansion and contraction of credit is a passive ***result***, not a cause, of changes in production.

Underlying the analytical difference over the role of credit and interest between bourgeois and Marxist economics is the concept of class. In bourgeois economics there is no capitalist class. Instead, atomized non-capitalist entrepreneurs borrow from equally atomized rentiers, using the funds to establish productive enterprises. Entrepreneurs and rentiers are linked solely through the rate of interest.

According to Marxism, however, the capitalist class is a definite concrete group composed of those who own and have a monopoly over the means of production (including loanable capital). The capitalist class is bound together by innumerable personal, familial and organizational filiations; the atomized non-capitalist entrepreneur—the central figure of bourgeois economic theory—is a fiction. The capacity to borrow is strictly limited by one's ownership of the capital assets required for security against loans. In reality, credit under capitalism is always rationed, on the basis of specific monopoly complexes involving financial, industrial and commercial capitalists. The clearest example of this is the Japanese *zaibatsu* system, but the same phenomenon holds throughout the capitalist world.

From the Marxist standpoint the fundamental fallacy of Keynesian economics is the assertion that the expansion of the government sector will leave the rate of profit, and therefore the level of private investment, unchanged. Whether financed through borrowing or taxation, government expenditure constitutes overhead costs of the capitalist system—a part of the total social capital expended and replaced, denoted by "constant capital" in Marx's equation for the components of the commodity product. (For a fuller discussion of this question, see "Myth of Neo-Capitalism," *RCY Newsletter* No. 10, January-February 1972.)

Assuming, as Marx did, that the share of wages of productive workers (variable capital) is determined in the labor market, then an increase in government overhead costs (constant capital) must ***reduce*** the potential surplus value and therefore the rate of profit as well. A constantly expanding government sector would tend to drive down the rate of profit, progressively arresting private capitalist investment.

The Limits of Mattick's "Mixed Economy"

Published in 1969, Paul Mattick's book *Marx and Keynes*, which carries the more indicative subtitle, *The Limits of the Mixed Economy*, accepts the common revisionist/reformist/liberal view that for a certain historic period Keynesianism produced "prosperity":

"Government induced production may even bolster the rate of economic growth. Conditions of 'prosperity' more impressive than those brought forth under laissez-faire conditions may arise.... At any rate, recent economic history has demonstrated the possibility of a 'prosperous' development of a mixed economy."

However, Mattick at least makes a serious attempt to develop the internal contradictions of Keynesian economic policy and holds that increased government expenditure must eventually destroy capitalist stability:

“Once non-profit production becomes an institutionalized part of the economy, a vicious circle begins to operate. Government production is begun because private capital accumulation is diminishing. Using this method diminishes private capital accumulation even more; so non-profit production is increased.... The limits of private capital production are thus, finally, the limits of government induced production.”

The most orthodox of the various revisionist theoreticians of postwar capitalism (e.g., Mandel, Paul Sweezy, Michael Kidron), Mattick is the most grudging in giving ground before the claims of Keynesianism. In contrast to Mandel and Sweezy, Mattick’s work has the virtue of recognizing that expanded government expenditure drives down the rate of profit on private capital and therefore inhibits productive investment. However, Mattick would have been more consistent with Marxist economics if instead of treating government expenditure as a non-profit component of surplus value he treated it as a subtraction from the gross value of output, in the form of constant capital expended and replaced.

Mattick’s work is a partially correct explanation of why those capitalist countries bearing a heavy burden of government expenditure (the U.S., Great Britain) have grown much slower than those economies with a relatively limited state sector (Japan, France). Yet his theory cannot explain the onset of a major world depression, nor does Mattick project such a development. The logic of his theoretical model is for progressive stagnation, not a general world slump.

According to Mattick’s model, a sharp fall in private investment such as occurred in 1974 should have been preceded and caused by a sharp rise in the share of government expenditure. But this did not at all happen during the 1972-73 boom. The share of government outlays in the advanced capitalist countries remained virtually unchanged during that period, as can be seen from the following figures:

Government Expenditures as Percentage of GNP

Country	1971	1973
France	12%	12%
Japan	9%	9%
United States	22%	22%
West Germany	17%	18%

Source: OECD, *Economic Outlook,* December 1972 and December 1974.

Thus even at the empirical level it is indisputable that the current world economic crisis cannot be attributed to the limits of Keynesianism, at least not in the sense of intolerably large government expenditure relative to private capitalist production.

The Mandelian School of Falsification

In “The Generalized Recession of the International Capitalist Economy” (*Inprecor*, 16 January 1975) Ernest Mandel, theoretician-leader of the pseudo-Trotskyist United Secretariat, attempts a major analysis of the world conjuncture. The article begins with a statement of self-praise to the effect that the author, unlike many others, always rejected the idea that Keynesian economic policies could stabilize capitalist industrial cycles:

“While the recession may be a surprise to all those in bourgeois and petty-bourgeois circles and in the workers movement who had been taken in by the claim that the governments of Capital endowed with neo-Keynesian techniques would henceforth be in a position to ‘control the cycle,’ it was foreseen and predicted by our movement, almost to the date.”

And who are these unnamed figures in the workers movement who believed—oh, how naively—that “neo-Keynesian techniques” could “control the cycle”? Perhaps Mandel is referring to the author of the following excerpts from a well-known book on Marxist economics published in 1962:

“Since the Second World War, capitalism has experienced four marked recessions: in 1948-49, 1953-54, 1957-58, and 1960-61. It has had no grave crisis, and certainly nothing of the dimensions of 1929 or of 1938. Have we here a new phenomenon in the history of capitalism? We do not think it necessary to deny this, as certain Marxist theoreticians do.... The origins of the phenomenon are connected with all the features of the phase of capitalist decline which we have listed. The capitalist economy of this phase tends to ensure ***greater stability*** both of consumption and of investment than in the era of free competition, or than during the first phase of monopoly capitalism; it tends toward a reduction in cyclical fluctuations, resulting above all from the increasing intervention of the state in economic life.” [emphasis in original]

What is this supposedly Marxist work which claims that state intervention has ensured “***greater stability***” and “a reduction of cyclical fluctuations”? It is entitled *Marxist Economic Theory* (the excerpts are from Chapter 14) and is written by one Ernest Mandel.

To be fair to Mandel, it should be noted that he always hedges his bets. He has not completely rejected the efficacy of Keynesian countercyclical measures. Buried in the *Inprecor* article is a statement that governmental intervention can arrest and reverse the present world economic crisis:

“The recession is precisely a crisis of overproduction whose breadth and duration are limited by an injection of inflationary buying power. Thus, if the economy is refloated by means of such injections—first of all in West Germany, then in the United States and Japan—the international capitalist economy will avert a grave depression this time.”

If this were possible, one wonders why the capitalist governments have let things go so far.

Despite his usual fine-print escape clauses, Mandel's latest contribution is a dishonest repudiation of the analysis of contemporary capitalism expressed in his principal writings during the 1960s. Having served its purpose as an impressionistic justification for opportunist policies of adaptation to the labor bureaucracy, "neocapitalism" has now been discreetly removed from the Mandelian vocabulary.

A Professional Impressionist Views the Conjuncture

Having "disappeared" his belief in the efficacy of Keynesian stabilization policies, Mandel resorts to various ad hoc theories to explain the present conjuncture. His central theme is why there is a ***world*** crisis now, whereas during the past 20 years the various national slumps (sometimes severe) were largely isolated in time from one another. As Mandel puts it:

"The generalized recession will be the most serious recession in the post-war period, precisely because it is generalized. The lack of synchronization of the industrial cycle during the 1948-68 period reduced the breadth of recessions."

It is an indisputable empirical fact that since the 1958 recession (not since 1948 as Mandel contends), the various national economic downturns have not reinforced and have partly offset each other. This statement can be transformed from an empirical description into a causal theory only if it is asserted that the absence of conjunctural synchronization was not due to contingent factors, but rather was inherent in the structure of postwar capitalism (at least until recently). This is precisely what Mandel now seeks to demonstrate:

"This synchronization is not an accidental feature. It results from deeper economic transformations that occurred during the long period of expansion that preceded the recession."

Mandel advances three reasons to support this thesis. The first is that the world economy in the l950s-1960s was not sufficiently integrated (!) to permit a generalized crisis. But during that period, the world economy became sufficiently integrated, particularly due to the expansion of multinational firms:

"Internationalization of production took new leaps forward, marked by advances in the international division of labor among all the imperialist countries. From the standpoint of the organization of capital, this reflected itself in the rise of multinational firms which produced surplus value in a great number of countries simultaneously...."

Apparently it really is necessary to point out to Mandel that the world economy has been sufficiently integrated to generate international crises/slumps for more than a century! The principal basis of that integration is world commodity trade and its associated complex of financial claims. The principal "multinational firms" which extract surplus value in a "great number of countries simultaneously" are today, as they have been for centuries, the great banks, not industrial corporations.

World crises are marked and intensified above all by major bank failures: the Austrian Credit-Anstalt in 1931, Bankhaus Herstatt in West Germany and Franklin National Bank in the U.S. in 1974. The partial displacement of banks by industrial firms in financing international trade and investment has a certain effect on present-day capitalism. But it certainly does not qualitatively raise the level of international economic integration, permitting world economic crises for the first time.

Mandel's second reason is that the displacement of the dollar exchange standard by managed fluctuating rates in 1971 has prevented competitive devaluation, thus requiring simultaneous deflationary policies:

"...as soon as the collapse of the international monetary system led to the system of floating exchange rates, that is, as soon as it became impossible to resort to sharp devaluations to boost exports, ***all*** governments were obliged by interimperialist competition to apply an antiinflationary policy ***simultaneously***." [emphasis in original]

This argument is simply false, totally wrong. The fixed exchange rate system set up at Bretton Woods in 1944 was deflationary and acted as a limit to deficit spending. Several prominent British Keynesians, such as Roy Harrod and James Meade, long advocated fluctuating exchange rates in order to pursue more expansionary monetary and fiscal policies.

Before August 1971 competitive devaluation was exceptional, to be used only *in extremis*; today it is the rule. During the 1950s and 1960s governments often resorted to deflationary measures to protect an overvalued exchange rate (for instance, the policies of the second Eisenhower administration, the austerity program of the early Gaullist regime and the "stop-go" policies of various British governments before the 1968 devaluation of the pound).

Mandel's third reason is that since periods of national economic slump are becoming longer they are more likely to overlap with recessions in other countries:

"The phases of stagnation, and even recession, are beginning to be longer. Obviously, this leads to synchronization. When they occur in a dozen countries at once, recessions that last six months are less easily surmounted than recessions that last two years."

This is, of course, a statistical truism. However, since the prolongation of an economic crisis in one country is strongly influenced by simultaneous slumps in the rest of the world, Mandel's reasoning is completely circular. Thus his third "reason" is no reason at all but simply another way of describing a general world downturn.

In short, of Mandel's three reasons why a general world slump is occurring now but was not possible in the preceding period, the first is irrelevant, the second is false and the third is meaningless.

Is Inflation the Achilles Heel of Keynesianism?

Virtually all liberal bourgeois, reformist and revisionist economists maintain that the only obstacle to effective Keynesian policies is inflation. Expanded government expenditure can always produce full employment, they say, but sometimes only at the cost of intolerable rates of inflation. From bourgeois reactionaries like Milton Friedman to the pseudo-Marxist Ernest Mandel there is agreement that Keynesian policies must generate ever-higher levels of inflation. Is this contention valid?

The accelerated inflation of the past few years is an indisputable empirical fact. In the period 1961-71 consumer prices in the advanced capitalist countries increased at an annual rate of 3.7 percent; in 1972 this rose to 4.7 percent, in 1973 to 7.7 percent and in 1974 to 14.1 percent (OECD, *Economic Outlook*, December 1974)! Is this accelerated inflation an inevitable result of 20 years of Keynesian policies?

Earlier in this article it was pointed out that the share of government expenditure did not increase during the 1972-73 boom. Thus the price explosion during the past few years cannot be attributed to ever-greater budget deficits to finance ever-greater government spending. The very sharpness of the price increases since 1971 argues against the theory that it is an organic, inevitable outcome of a generation of deficit spending.

What then is the cause of the increased inflation of the past three years? One major cause has already been touched on. The dollar exchange standard, which collapsed in August 1971, had an effect partially similar to the pre-World War I gold standard. The maintenance of a fixed exchange rate served as an external limit to the expansion of domestic money and credit. Since 1971 capitalist governments have taken the "easy way" out of balance-of-payments deficits by allowing their currencies to depreciate. Exchange-rate devaluation further feeds domestic inflation, producing a vicious spiral. Britain and Italy are the clearest examples of this process.

The second reason for the accelerated inflation is that the sharp 1972-73 world boom had an effect on agricultural and raw material supplies similar to that of a major war. From the Korean War through 1971 the terms of trade for agricultural products/raw materials had deteriorated relative to manufactures, producing a fundamental imbalance in global productive capacity. During 1972 when industrial output in the advanced capitalist countries increased by 8 percent, global food production actually fell slightly (OECD, *Economic Outlook*, December 1973). These physical shortages quickly generated speculation, hoarding and cartel manipulation. Between 1971 and 1973 the index of world raw material prices increased by over 80 percent, as did the price of internationally traded food products (OECD, *Economic Outlook*, December 1974). Thus two factors—the widespread resort to competitive devaluation after 1971 and the effect of the 1972-73 boom on agricultural and raw material supplies—account for the price explosion of the last few years.

Even discounting the fact that it is empirically false, the argument that Keynesianism is now ineffective because it leads to intolerable inflation is not a fundamental but rather a temporary, conjunctural one. As an attempted objective analysis it is similar to the present position of certain right-wing Keynesians, such as Federal Reserve Board chairman Arthur F. Burns and Ford's economic adviser William Fellner, who contend that a few years of high-unemployment slump are needed to drain the inflationary pressures out of the world capitalist system. After that, they contend, Keynesian policies can again produce 10 or 20 years of low-inflation, mild-recession expansion.

If there is no major war nor a mass revolutionary upheaval in West Europe during the next few years (both are genuine possibilities), the world depression should deepen this year, giving way to high-unemployment stagnation lasting at least through 1976. If this occurs, in two years the rate of inflation will be greatly reduced; it already shows numerous signs of slowing. Those leftists whose central argument against bourgeois economic reformism is that it leads to ever-accelerating inflation will then find themselves theoretically defenseless against the claims of resurgent Keynesianism.

The "theory" that for a generation capitalist governments were able to prevent major crises and stimulate exceptional economic expansion has an implacable revisionist logic. Whatever the subjective attitudes of its proponents this view leads straight to the conclusion that we have been living in an epoch of capitalist economic stability. Such arguments have nothing in common with Marxism. On the contrary, the Transitional Program of the Fourth International has as its cornerstone the Leninist theory of imperialism as the highest (last) stage of capitalism, its epoch of decay and a period of wars and revolutions. This must be our perspective.