Comment

Note on Left-Wing Neo-Conservatism

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In an attempt to counter the abuses and general consequences of Reaganomics, there has emerged during the last decade a specific form of "supply-side" radical economics (particularly in the United States), whose advocates seem to accept some of the basic precepts and results of conventional economic theory.¹ One current of radical thinking explains unemployment and the associated productivity slowdown by the high growth of real wages and the ensuing "profit squeeze";² others have analyzed the wastefulness of Reagan's...
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military Keynesianism by pointing, almost in the style of Hayek and contemporary neo-conservative ideologues, to the supposed negative effects of high federal budget deficits!

In *SPE* 24, which is dedicated to a critique of the neo-conservative agenda, the article by E. Shaffer on military spending and the economy is representative of this latter current of radical neoclassicism. Shaffer's article points basically to two critical reasons for the rejection of military Keynesianism. The first, with which we are undoubtedly in full agreement on both economic and moral grounds, is that such government expenditures *could* and ought to be better used for public investment purposes, such as health and education, rather than for the planning of human destruction. Also, the diversion of a growing share of employment in the defence industries may slow down economic growth, since military production absorbs resources that *could* be better employed in improving the community's future productive potential.¹

Shaffer's second reason for opposing military Keynesianism is, however, totally unacceptable and smacks of Hayek and Mises. Depicting it as the principal cause of large budget deficits, Shaffer points to the growth in military spending as being responsible for economic stagnation, since it crowds out private productive investment, creating higher interest costs:

A policy of large deficits forces the government in a capitalist economy to borrow more and more funds in the money market. If the private sector is at the same time expanding its activities, it will seek funds in the money market. This pursuit of funds puts upward pressure on interest rates. The government can counter this pressure in one of two ways. One is to increase the money supply. The problem with this is that it is inflationary... The second way is to reduce economic activity in the private sector. This would reduce the demand for funds in the money market, and therefore mitigate the upward pressure on interest rates. This is apparently what is now happening in the United States, where economic activity has slowed down considerably during the last year.²

Shaffer's article thus seems to join the litany of contemporary high priests of neoclassical orthodoxy who, in their crusade against "wasteful" state spending, identify the budget deficit as the principal evil. The search for further support and legitimacy for its criticism of existing policies has taken the
Left full circle in rehabilitating bankrupt theories that were discarded over half a century ago, and has resulted in a new united front against government deficits, which now includes progressive peace activists and neo-conservatives obsessed with balanced budgets.

Are political economists still familiar with the writings of Marx and Keynes, and particularly with the latter's criticism of the neoclassical theory of capital? One of the fundamental contributions of Marx's analysis of the circuit of money-capital, and of Keynes's rejection of the loanable funds theory of interest, was to set political economy on a firmer basis than that provided by both classical and neoclassical fundist principles. Marx criticized vulgar political economists, such as Senior, for accepting the concept of a wage fund. Keynes rid political economy of the ridiculous idea of a neoclassical capital market that equilibrates the demand for, and supply of, financial funds through variations in interest rates by showing that the flow of investment and savings are always identical. While standing on the shoulders of such intellectual giants, many on the left still fall prey to this fundamentally erroneous conception of a so-called "capital market" in a capitalist economy.

For expository purposes, it may be argued that there have evolved historically two general models of systems of accumulation. The first model of primitive accumulation, pertaining more to a feudal than to a modern capitalist economy, is one in which accumulation must take place through the prior extortion or appropriation of a capital fund that is needed for the system's expanded reproduction. Classical and neoclassical models, in which a savings fund is first required in order for investment spending to proceed, are descendant from this general approach. The second model more properly depicts the modern system of capitalist accumulation and, in contrast to the first, allows advances of money-capital to be made to firms for investment purposes regardless of any previous accumulation of funds in a monetary economy. Such investment spending is itself a causal factor in determining the fluctuations in the rate of growth of the community's stock of savings. This view of the accumulation process crystallizes a synthesis of Marx's and Keynes's analyses and has been further elaborated in recent years by researchers who work within the modern paradigm commonly described in France as la théorie du circuit.5
To believe, as Shaffer apparently does, that to finance the
government deficit, the state must compete for funds with the
private sector in a so-called capital market, is to confound the
American economy of the 1980s with some primitive agricul-
tural economy before the Industrial Revolution. One of the
great scientific achievements of modern macro-economics, along
the lines set out by Keynes and Kalecki, has been to show
how, in an economy operating normally at less than full ca-
pacity, the budget deficit automatically creates the flow of
savings with which the deficit is supposedly to be financed.
Instead of the disastrous consequences of budget deficits on
private investment suggested by Shaffer, the opposite is nearer
to the truth. Government deficits arise merely to permit those
who control financial capital to accumulate relatively liquid
assets in excess of the amount private firms are willing to hold
in the form of private debt. It can, indeed, be said that
government spending provides an outlet for private financial
capital that exceeds private investment intentions. Thus, this
is a means of meeting the macro-economic exigencies of fi-
nance capital in preventing a cumulative deflation of capital
assets during recessions.

Analysts on the Left have nothing to gain in sticking stub-
bornly to the conventional neoclassical theory of capital. Ig-
oring Keynes and Kalecki while, at the same time, presenting
one's views as being more orthodox and virtuous than those
of the neo-conservative Right, is a self-destructive strategy for
the Left. The critique of Reagan's military Keynesianism,
according to some primitive and discredited principles of "sound
finance," is a turn to an outdated Right in economics; and, as
shown by Ferguson and Rogers, this merely becomes the
starting-point for a further "right turn in American politics." 7

Notes

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Juliet Schor (Harvard), and Irene Spry (Ottawa) for their valuable comments.
However, the usual disclaimers apply.
1. For instance, in their recent book, Democracy and Capitalism (New York, 1986),
S. Bowles and H. Gintis write: "Missing from the Marxian model is the
notion of choice... A consequence of this denegation of individual action as
a conceptual category has been a lack of interest among Marxian economists in developing the microeconomic logic of even their most fundamental propositions" (p. 146).

2. This literature on the "profit squeeze" goes back to the early 1970s. Just to quote S. Bowles and H. Gintis again: "Profits were squeezed by a pincer that was in part the creation of the postwar accommodation itself—namely, cost pressures from labor that could not be passed on to consumers because of the increasingly competitive and open world economy." Bowles and Gintis, Democracy and Capitalism, p. 60 (see n. 1 above). For an excellent summary and critique of this approach, see M. Lavoie, "Pourquoi faut-il recommander la lecture de Keynes de préférence à celle de Marx et Friedman aux chefs syndicaux," La "Théorie générale" et le keynésianisme, ed. G. Boismenu and G. Dostaler (Montréal), 1987), pp. 163-78.

3. This is the view also promoted in various studies on the arms race, such as those presented in M. Kaldor, D. Smith and S. Vines, eds., Democratic Socialism and the Cost of Defence. (London, 1979), and it remains the vision behind the current Development and Disarmament Initiative (DDI) launched by the Bertrand Russell Peace Foundation.


5. For further discussion on the distinction between these two models of accumulation, see A. Parguez, "La dynamique de la monnaie," Economies et sociétés 18: 4 (avril 1984), pp. 83-118; and A. Parguez, "Au coeur du circuit ou quelques réponses aux énigmes du circuit," Economies et sociétés 20: 8-9 (août-septembre 1986), pp. 23-39. These views, on the circular nature of credit-money held by the French "circuit" school, broadly joins the fundamental work of American institutionalist economists. For a clear statement of these links, the reader may wish to consult the two articles by G.P. Foster in the Journal of Economic Issues (December 1986 and March 1987, respectively). For an application of this general "circuit" approach to the Canadian experience, see M. Seccareccia, "Systemic Viability and Credit crunches: An Examination of Recent Canadian Cyclical Fluctuations," Journal of Economic Issues 22: 1 (March 1988), pp. 49-77.

6. As it has been stated elsewhere, and as the post-19 October 1987 experience confirms, the public debt has become a depository for all those investors who, as Keynes described them, have lost their "animal spirits" and have acquired a strong liquidity preference. See M. Seccareccia, "La stratégie de reprise economique et le budget federal," Bulletin de l'Association d'économie politique 8: 1 (avril 1987), pp. 2-4. In recent discussions over the problem of financing the U.S. federal deficit, and as a way of defending their fiscal conservatism, neo-conservatism economists have emphasized the necessity of attracting external savings to pay for the deficit. Their argument, however, is just as misleading. Japanese and German banks and corporations are part of those foreign rentiers who are subsidized by the U.S. budget deficit. Through its increased indebtedness, the U.S. Treasury merely allows Japanese and German rentiers to save in excess of what their respective national economies are willing to increase of their own domestic debt. It should be clear, therefore, that while Japanese and German excess savings appear as claims against the U.S. Treasury, never can there exist a shortage of savings that would require an automatic increase in the level of U.S. interest rates. For further discussion on the role of the monetary authorities under the Reagan administration, see, inter alia, W. Greider, Secrets of the Temple; How the Federal Reserve System Runs the Country (New York, 1987).