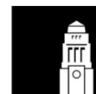

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Kalecki on budget deficits and the possibilities for full employment

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Abstract: This paper revisits the writings of Michal Kalecki which relate to issues of fiscal policy, budget deficits and securing full employment in capitalist economies. It seeks to relate those writings to the recent fiscal policy debates after the global financial crises. It covers the issues of the financing and funding of public expenditure and private expenditure. The relationship between the scale of budget deficit and the achievement of full employment is considered. Kalecki's approach to the 'burden' of debt is elaborated. The social and political constraints on the achievement of full employment are revisited.

JEL codes: E11, E62, E24

Key words: Kalecki, austerity, full employment, fiscal consolidation

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Kalecki on budget deficits and the possibilities for full employment

Malcolm Sawyer[1]

1. Introduction

Kalecki wrote extensively on issues relating to fiscal policy, budget deficits and unemployment in industrialised capitalist economies, particularly in the first half of the 1930s (with papers now in Osiatynski, 1990) and the first half of the 1940s (papers largely in Osiatynski, 1990, 1991, 1997). These writings combined theoretical arguments alongside empirical analysis and went alongside the developments of his macroeconomic analysis. The purpose of this paper is to draw on those writings for their contemporary relevance and to illustrate how they relate to some of the recent experiences of austerity and policies of fiscal consolidation.

In section 2, I outline some features of the recent experiences with fiscal and budgetary policies as background to the subsequent discussion of Kalecki's analyses. Section 3 summarises Kalecki's approach to the financing and funding of public expenditure and budget deficits. This is followed by section 4 which deals with some issues of the financing and funding of private expenditure. Section 5 focuses on the relationship between the scale of budget and the achievement of full employment. It points to Kalecki's arguments against seeking a balanced budget at full employment, and that is extended to the case of the structural budget balance policy. In section 6, Kalecki's approach to the 'burden' of debt is elaborated. Section 7 revisits the social and political constraints on the achievement of full employment. Section 8 provides some concluding comments.

2. Remarks on recent fiscal policy debates

During the 2000s, fiscal policy and the role of budget deficits had taken something of a back seat in macroeconomic policy with the dominance of monetary policy, at least in most academic debates. The so-called 'great moderation' (Bernanke) with the inflation targeting framework based on monetary policy and an independent central bank had appeared to have achieved steady growth with low inflation – in words of Mervyn King the NICE (non-inflationary continuous expansion) decade. The global financial crises (GFC) of 2007/09 brought that illusion to an end. In the resulting global recession, budget deficits rose as economic activity (and thereby tax receipts fell) and as governments boosted their expenditure to provide income support and business rescue packages. But this was soon

[1] I am grateful to an anonymous referee for comments on an earlier draft.

followed by drives for fiscal consolidation and austerity. The fiscal policy responses varied between countries (Sawyer, 2017). However, there were underlying themes which could be labelled the drive for fiscal consolidation and austerity. In the aftermath of the GFC, there was a general drive for fiscal consolidation and reductions in the budget deficits down to budget balance or even surplus. There were fears of 'excessive' debt levels, and the scares of burdening future generations with debt, and claims of inability to borrow further ('the credit card is maxed out' to use expression often used by UK Prime Minister David Cameron). The attempts to reduce budget deficits largely took the form of expenditure cuts (or at least expenditure rising less quickly) rather than tax increases: particularly in case of the UK.

The COVID-19 pandemic has led to budget deficits which were on a large scale (of the order of 15 to 20 per cent relative to GDP) and subject to a particularly rapid increase and rising public debt levels. Although the causes of the down-turns in economic activity are different, both the GFC and the COVID-19 pandemic raise issues for fiscal policy in terms of the role of budget deficits, responding to higher levels of public debt (relative to GDP), and responding to rising unemployment.

3. Financing and funding of public expenditure

In approaching the issue of 'how can public expenditure be paid for', an important distinction which needs to be made is between initial finance and final finance (or funding), taking the terms from the monetary circuitist analysis (Graziani, 1987; 2003). Initial finance is required for any expenditure to occur in that the prior possession of money is required in order for it to be spent. Final finance refers to the funding of expenditure over a particular period, that is the source of the funds (from income, from savings, from borrowing) needed to underpin the expenditure undertaken. The circuitist analysis has generally focused on the initial financing of production, where it is required to cover the costs of planned production and to enable the expenditure, and requires possession of money which may be provided through bank loans. Final finance refers to the funding in the sense of the sources and uses of funds relating (in this example) to the costs of production. Mehrling (2020) makes the distinction between payment and funding, an "analytical distinction … being basically the same as Graziani's (2003) distinction between initial finance and final finance" (p.2). In the discussion here I use the terminology of (initial) finance and funding. Kalecki, as many authors, often uses the term finance to mean what I term funding or final finance in the circuitist terminology.

Modern Monetary Theory (MMT) has emphasised that government expenditure can always be financed (in the sense of initial finance) through the actions of the central bank acting in its role as the bank of the government, and that a government cannot run out of money[2].

Kalecki, writing in 1932, noted that a fiscal expansion could come from "the government obtaining large credits from the central bank and spending them on massive public works of one sort or another. In this case the money no doubt would be spent and this would result in increased employment" (Kalecki, 1932b, p.175). In a similar vein, he spoke of "starting up major public-investment schemes, such as construction of canals or roads, and financing them with government loans floated on the financial markets, or with special government credits drawn on their bank of issue." (Kalecki, 1932a, p.53). Similarly, "the government raises credits in the central bank and uses them, e.g. to construct public service units" (Kalecki, 1933, p. 156). In this and similar discussions, Kalecki often emphasised the effects of government spending on profits and also the constraints on the level of economic activity imposed by balance of payments considerations.

He set out another account a decade or so later when he sought to answer the question of "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 these securities will reach people 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 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." (Kalecki, 1944a, pp. 347-348).

[2] "It is the currency issuer—the federal government itself—not the taxpayer, that finances all government expenditure." "We will show how MMT demonstrates that the federal government is not dependent on revenues from taxes or borrowing to finance its spending and that the most important constraint on government spending is inflation." (Kelton, 2020).

When a budget deficit was required in order to sustain a high level of aggregate demand, Kalecki clearly set out the argument that the funding of a deficit did not constitute a problem. In a sub-section headed 'where does the money come from?', Kalecki (1944a, p.358) wrote that "the budget deficit always finances itself – that is to say, its rise always causes such an increase in incomes and changes in their distribution that there accrue just enough savings to finance it", nevertheless "the matter is still frequently misunderstood" (and, of course, it is still misunderstood).

The effects of government spending and money creation were often seen in what could be described in portfolio adjustment terms. For example, "in normal conditions [absence of hyperinflation] the accumulation of reserves does not lead to an increase in spending, but merely to so-called liquidity in the money market. Capitalists, whose reserves have increased, will invest part of them in stocks and bonds sold by other capitalists. Their price will rise, that is, their rate of interest will fall. Equilibrium will be reached when bank deposits become just as attractive as securities." (Kalecki, 1955, p. 358).

4. Financing and funding of private expenditure

The Keynesian IS/LM framework can be used to predict the effects of changes in investment and government expenditure by shifts in the IS curve. However, within that framework, no attention was paid to how a proposed increase in expenditure would be financed – where does the money come from? Although Kalecki did not particularly emphasise this point, in his writings he did indicate how the required money would be created. He used the working assumption that "the financing of additional investment is effected by the so-called creation of purchasing power. The demand for bank credit increases, and these are granted by the banks" (Kalecki, 1935, p.190). In Sawyer (2001), I argued that "Kalecki presented ideas which can be seen as now embedded in the structuralist post-Keynesian analysis of endogenous money and in the circuitist approach" (p.487). Messori (1991), however, argued that "Kalecki did not differentiate enough between the two different meaning of financing: the monetary flows required to finance an increase in the demand for capital goods (investment financing), and the monetary advances required to finance the purchase of working capital (production financing)" (p.301). The main focus of that analysis was on investment decisions, rather than on the extension of credit, which was viewed as generally permissive.

5. Full employment and balanced budgets

The adoption by 26 of the 28 member countries of the European Union of a 'fiscal compact'

within the Treaty on Stability, Coordination and Governance formalised requirements for a balanced structural budget for each member country. In the UK, in the Charter for Budget Responsibility targets were updated in Autumn 2016 " to reduce cyclically-adjusted public sector net borrowing to below 2% of GDP by 2020-21" and "for public sector net debt as a percentage of GDP to be falling in 2020-21" (HM Treasury, 2017). It is puzzling as to why a target for the cyclically-adjusted budget position is set for some years ahead rather than being required to be met all the time, recognizing that, of course, the actual budget position will vary with the business cycle and discretionary spending. It had earlier been proposed, though not implemented, that the government to run a budget surplus. The then UK Chancellor of the Exchequer (George Osborne) announced in June 2015 his intention "that, in normal times, governments of the left as well as the right should run a budget surplus to bear down on debt and prepare for an uncertain future", and that "in the Budget we will bring forward this strong new fiscal framework to entrench this permanent commitment to that surplus, and the budget responsibility it represents." (Osborne, 2015)[3].

From the perspective of Kalecki's work, the aim for balanced structural budget would be a recipe for austerity, and *a fortiori* aiming for a budget surplus. A structural budget position is calculated as that which would appertain if the economy were operating at 'potential output' and government expenditure and tax rates maintained at their current levels (apart from spending programmes and tax adjustments, which are explicitly related to the state of the business cycle). 'Potential output' is the level of output at which inflation would be expected to be constant. The estimates of the 'structural balance' depends on the output gap measure, with SB = FB – eOG – OE where SB is structural budget, FB is fiscal balance, e is reaction of fiscal balance to output gap, OG, and OE is discretionary (for state of business cycle) adjustments to budget deficit..

There are a range of what may be termed technical objections to the construction and use of a structural budget (further discussed in Sawyer, 2012, Heimberger and Kepler, 2017). These include the issues of the estimation of 'potential output' and the degree to which estimates of 'potential output' have path dependent effects on output.

'Potential output', which may correspond with the non-accelerating inflation rate of unemployment (NAIRU), is intended to be a level of output at which rate of inflation would

[3] See Sawyer (2015) for a critique.

be constant, and corresponding for the NAIRU, a level of unemployment at which inflation would be constant. This may fall well short of full employment. The focus on 'potential output' in the context of macroeconomic policy is in effect an abandonment of any notion of full employment. Kalecki would have viewed the achievement of full employment as requiring not only the appropriate level of aggregate demand supported by fiscal policy but also the creation of sufficient productive capacity.

Kalecki (1944b) argued that there would be the need for permanent budget deficits in the face of intentions to save exceeding intentions to invest. He criticised those who accepted that budget deficits would rise during economic downswings but who did not accept the arguments for the need for permanent budget deficits. He argued that "there will emerge out of a consistent anti-cyclical policy a certain more or less stable level of private investment which by itself, i.e. without considerable assistance by loan expenditure of the public authorities, may fall short of the level required to 'fill the gap' of savings out of a full employment income." The White Paper on Employment Policy of 1944 stated that their policy recommendation "certainly do not contemplate any departure from the principle that the Budget must be balanced over a longer period", and there was also concern in reducing "that part of the public debt which is a dead-weight war debt" (Ministry of Reconstruction, 1944 p.25). Kalecki argued that the White Paper on Employment Policy did not provide a programme for achieving lasting full employment which would have to be based on a long-run budget deficit policy or the redistribution of income towards wages thereby stimulating aggregate demand. He argued that even if counter-cyclical measures were successful in stabilising effective demand, it did not follow that full employment would be achieved. The simple reason was that the relatively stable level of private investment may well fall below the level required to match savings out of full employment income (Kalecki, 1944b. pp.243-4).

There has also been an important shift in macroeconomic debates from the achievement of full employment especially of labour to the achievement of 'potential output'. It would have to be recognised that the meaning of 'full employment' has to evolve to accommodate changes in the labour market from one dominated by often male workers on what was regarded as full time work to one with much more variations in hours of work and other conditions. But the main point is that 'potential output' is a measure geared towards a low

and constant rate of inflation without any check whether this corresponds to a socially desirable level of employment.

Nevertheless, the arguments of Kalecki that a budget deficit may well be required to underpin full employment can be applied to the case of 'potential output'. The 'impossibility' of structural budget balance comes from the following argument. Suppose that the economy was operating at 'potential output', and then:

(1) $G – T = S – I + M – X$.

where S is private savings, T tax revenue (net of transfers), M imports, I private investment, G government expenditure on goods and services and X exports (including net income received from abroad).

The budget deficit position would then be the structural budget position (by definition): now assume that the balanced structural budget has been achieved. Then:

(2) $I – S + CA = 0$

However, is this equation sustainable? Have the levels of investment, savings and current account position come about as a result of voluntary decisions? Are the levels of investment, savings, and current account position those which are desired at 'potential output'? If they are not, then eqn. (2) would not be sustainable, and hence a balanced structural budget would not be feasible.

Keynes is frequently quoted as saying that "look after the unemployment, and the budget will look after itself." (Keynes, 1933). From the perspective of Kalecki's analysis, a revival of private demand, whether coming in some sense autonomously (e.g. upturn of the business cycle, upturn of foreign demand) or through some policy stimulus (e.g. reduction of interest rate, though Kalecki would have seen that as of limited usefulness), stimulus for investment (though if that comes through tax incentives it has fiscal implications, and Kalecki placed doubt on how far investment could be stimulated), would lower unemployment and lower the budget deficit. But the use of a fiscal stimulus to reach full employment would mean a large budget deficit—how far would depend on how far private demand especially investment revives in the face of a public stimulus. It is notable though that Kalecki viewed a long term budget deficit as the key component in securing full employment.

6. Debt burdens

The general rise in the public debt to GDP ratios after the global financial crisis (GFC) brought arguments about the scale of the debt ratio to the fore, and these have been exacerbated by

the COVID-19 pandemic with further rises in the debt ratio. The claim that budget deficits burden future generations has often been made: for example, "public borrowing is, in essence, taxation deferred, and it would be irresponsible and unfair to accumulate substantial debts to fund spending that benefits today's generation at the expense of subsequent generations" (HM Treasury, 2010, p.11). It is strange how this argument keeps re-emerging as it is well-known to be false. Kalecki clearly stated that "interest on an increasing national debt (as indeed on all debt) cannot be a burden to society as a whole because in essence it constitutes as internal transfer." Pigou (1918) had earlier dismissed the 'burden on future generations' argument by noting the internal transfer nature of interest payments on debt. The present (COVID-19) situation, as with the fiscal responses to the GFC, has the common features of large deficits which will leave the government debt much higher afterwards than before, and that the budget deficit post-war/pandemic will be much smaller than during the war/pandemic. This is likely to mean that the debt ratio will begin to fall once the pandemic is over[4], and it could then be left to decline through the effects of a lower budget deficit.

In considering issues of the size of the national debt, the following separation can be made. First, consider the case where the government runs a budget deficit which averages (relative to GDP) *d*. Kalecki noted that if full employment is maintained by deficit spending, then the public debt expands and the resulting interest payments on the debt also rise. But the sustainability of 1996depend on the rate of growth of the economy, and as Kalecki noted the rate of taxation "necessary to finance the increasing amount of interest on the national debt need not rise if the rate of expansion is sufficiently high, as a result of the increase in working population and technical progress" (1944a, p. 363).

It is well-known that a continuing primary budget deficit (relative to GDP) of *d* leads to a debt (relative to GDP) of $b = d/(g - r)$ where g is the growth rate and r the rate of interest on government debt, and sustainability of the deficit position without the debt continuously increasing relative to GDP requires $g > r$. It had often been argued the rate of interest would be above the growth rate, thereby limiting a continuous primary deficit. However, it has recently been argued that "safe interest rates [which] are expected to remain below growth

[4] B(t) = B(t-1) + D(t); b(t) = b(t-1)/(1+ g) + d; b(t) – b(t-1) = d.(1+g) -g.b(t), and hence declines if g.b(t) > d(1+g)/g, that is d < b.g/(1+g), where B is the public debt stock, D budget deficit, b,d corresponding ratios to GDP, g nominal growth rate.

rates for a long time, is more the historical norm than the exception" (Blanchard, 2019, p. 1197).

It can be argued that total budget deficit is the one relevant for fiscal policy and stimulus purposes. Interest payments on the public debt are income for the bond-holders. A total budget deficit (relative to GDP) of e would lead the debt ratio to converge to $b = e/g$ with the deficit (in the long term) becoming $d + r.b$ where r is the rate of interest on government debt[5] and d the primary deficit. Then $e = d + r.e/g$ and $d = e.(g - r)/r = b(g-r)$. Hence d is positive if $g > r$ (i.e. a deficit) and negative (i.e. a surplus) if $g < r$. The debt ratio converges on e/g (where g is the nominal growth rate) though the composition of the budget deficit moves towards interest payments.

The budget deficit which is relevant for the level of demand is the total deficit. Thus (as argued in Sawyer, 2019) the average budget deficit required to ensure full employment would be readily funded and the resulting debt level would, in general, be sustainable.

Second, consider a situation (as at present with the pandemic, and during war-time) where the budget deficit has risen considerably to deal with an emergency, and the debt ratio has jumped substantially, though the deficit subsequently likely to fall. This was in effect the type of situation about which Kalecki was writing where the UK government had been running a budget deficit of the order of 25 per cent of GDP and the debt ratio had been rising and eventually reached over 250 per cent by the end of the war. The debt ratio will be much higher than prior to the crisis (war, pandemic), and interest payments also higher than otherwise[6]. Kalecki (1943) discussed 'the burden of the national debt', in terms of a 'financial burden' in that interest has to be paid out. He also noted that interest payments are taxable. And he did not make any reference to any 'burden on next generation'. In what sense is the interest on debt a burden?

Kalecki advocated an annual capital tax, levied on firms and individuals which would raise money to finance the interest payments on the national debt which would affect "neither capitalists' consumption nor the profitability of investment" (Kalecki, 1944a, p. 363), which

[5] This is usually viewed in terms of the rate of interest on bonds; however when the deficit is partially bond funded and partially money funded it should read as the average rate of interest on borrowing, bearing in mind that current practice in many countries is that the central bank pays interest on bank reserves with the central bank.

[6] During the pandemic, as during WWII, interest rates have been rather low.

may be overly optimistic as consumption may well depend on wealth. Kalecki's proposal was for the funding of the interest payments on the debt – and his quick calculations in the context of war time UK was a wealth tax levied at a rate of 1 per cent per annum. He envisaged a "tax imposed to finance the interest on the national debt incurred after a certain fixed date" (p.363).

With a particular level of budget deficit required to secure full employment, then a higher amount of interest payments would tend to reduce the level of government expenditure consistent with that level of budget deficit. Let B be outstanding government debt, r (net of tax) interest rate on debt. The budget deficit $D = G + rB – T$, and treat $T = t.Y$ where Y is national income and T is taxes net of transfers, G government consumption. The sectoral balance (for a closed economy) provides $S – I = s_1(1\text{-}t).Y + s_2\, r.D – I$, where S is savings, and I is investment treated as exogenous, s_1 and s_2 propensities to save out of disposable income and interest payments.

To secure full employment (or supply constrained maximum output) Y*

$G + rD – t.Y^* = s_1(1\text{-}t).Y^* + s_2\, r.D – I$

$G <= s_1(1\text{-}t).Y^* + tY^* - (1 - s_2)\, r.D – I$; hence G will be constrained to be lower if tax rate is lower, interest payments on debt higher, investment higher. Other matters being equal, a higher debt (after war, pandemic) lowers constrained government expenditure unless taxes changed. Debt is a burden on government/tax payer, but not on bond holders – reflected in income received. Note however, that the interest payments act as a stimulus, and hence in order to achieve full employment there is less need for a stimulus from other forms of public expenditure.

It has long been argued that a bond funded deficit is more expansionary in the longer term than a money funded one as the former gives rise to future interest payments which are a source of income to the bond holders, whereas the latter was viewed as not doing so. Under present circumstances in many countries, interest is paid by the central bank on the reserves held by the banks. Whether such interest payments stimulate demand is debatable: balance sheet effects need to be examined. The point to be made is that when interest payments on government debt are made, there is some addition to demand.

Some invoked the argument for a negative relationship between the size of public debt and the rate of growth (at least above some threshold level of debt. An illustration of the role which such arguments played in the fiscal responses to the GFC comes from a speech given

by George Osborne in early 2010, as the then shadow chancellor of the exchequer, subsequently chancellor following a change of government. It formed a major plank in his pursuit of an austerity agenda. “As Ken Rogoff himself puts it, “there’s no question that the most significant vulnerability as we emerge from recession is the soaring government debt. It’s very likely that will trigger the next crisis as governments have been stretched so wide” (Osborne, 2010), “The latest research suggests that once debt reaches more than about 90% of GDP the risks of a large negative impact on long term growth become highly significant. So, while private sector debt was the cause of this crisis, public sector debt is likely to be the cause of the next one.” (Osborne, 2010). In the words of Reinhart and Rogoff, “[o]ur main result is that whereas the link between growth and debt seems relatively weak at ’normal’ debt levels, median growth rates for countries with public debt over roughly 90 percent of GDP are about one percent lower than otherwise; average (mean) growth rates are several percent lower. Surprisingly, the relationship between public debt and growth is remarkably similar across emerging markets and advanced economies” (Reinhart and Rogoff, 2010, p. 573). Further support came from a Bank of International Settlements study: “We note the risk that persistently high levels of public debt will drive down capital accumulation, productivity growth and long-term potential growth” (Cecchetti et alia., 2010, p.16). The results of Reinhart and Rogoff were debunked by Herndon et alia (2014). A more recent study found “that with further hindsight, and from a time series perspective, there is little to no support for the view that higher levels of debt cause reductions in economic activity. In contrast to Reinhart and Rogoff (2010), we suggest that economic slumps tend to cause debt build-ups rather than *vice versa*” (Amann and Middleditch, 2020). Ash et alai (2020) re-examine the relationship between public debt and growth in advanced economies, and find “little evidence to suggest a subtantial, causal negative relationhip. We demonstrate that there is strong indication of a reverse causal relationship from GDP growth to public debt.” (p.25). In Sawyer (2017), I considered further empirical evidence and argued that the evidence for a negative relationship between debt ratio and economic growth could be severely questioned. Further, there could well be elements of a relationship running from slow growth to high debt ratios, that is slow growth may lead to high ratios.

The approach of Kalecki provides an indication of what the scale of the budget deficit should be – sufficient to underpin full employment. That scale would shift as the scale of private demand shifted – lower propensity to invest, higher propensity to save indicating the need

for a larger budget deficit. A budget deficit which propelled the economy into over-full employment would probably be inflationary (in the absence of measures to constrain inflation), and would involve 'forced' savings to fund the deficit.

7. The social and political constraints on achievement of full employment[7]

Kalecki wrote that "a solid of majority of economists is now [that is 1943] of the opinion that, even in a capitalist economy, 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" (Kalecki, 1943 p.347). This was a view which he clearly supported, and he often placed some emphasis on the possible balance of payments constraints. Kalecki argued that the right balance between capital equipment and available labour, with sufficient capital equipment needs to employ all the available labour and to leave some capacity in reserve, would be needed to enable full employment without inflationary pressures. "If the maximum capacity of equipment is inadequate to absorb the available labour, as will be the case in backward countries, the immediate achievement of full employment is clearly hopeless. If the reserve capacities are non-existent or insufficient, the attempt to secure full employment in the short run may easily lead to inflationary tendencies in large sections of the economy, because the structure of equipment does not necessarily match the structure of demand" (Kalecki, 1943 pp. 361-2). It is unfortunately that case that a shortage of capital equipment can be more extensive, particularly when location taken into account than envisaged by Kalecki and that shortage of capital and equipment is a more widespread phenomenon limiting the achievement of full employment.

Kalecki (1944) evaluated "three ways to full employment" of which budget deficit was one, with re-distribution of income another one which Kalecki favoured, though 'back of the envelope' calculations suggest that while re-distribution could play a role it may be a relatively minor one (depending on the differences in the propensities to spend of the different income groups). The stimulation of investment would contribute to aggregate demand, but Kalecki saw there were severe limits to doing so. He argued that there would need to be continuing and cumulative stimulation of investment, and that the rate of interest, taxes on income and

[7] I have discussed "Kalecki on the causes of unemployment and policies to achieve full employment" in Sawyer (2007).

profits would have to continuously reduced or subsidies to investment continuously increased (cf. Kalecki, 1943 p. 377). The basis of the argument was that a high level of investment would lead to the capital: output ratio rising and the rate of profit declining, and to maintain a high level of investment would require measures to offset the effects of a declining rate of profit. Kalecki warned that those opposed to the idea that full employment can be achieved by government spending "there were (and 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 it is. But obstinate ignorance is usually a manifestation of underlying political motives." (1943, p. 349). I cite one example amongst many of the continuing objections raised by 'economic experts'. An article in Sunday Times in March 2010 headed "Economists warn that a failure to act could trigger a loss of confidence that could push up interest rates and threaten the recovery". "Leading economists say the government lacks a credible plan to cut Britain's budget deficit and that action to reduce the country's borrowing should start immediately after the election." (https://www.thetimes.co.uk/article/tories-right-on-cuts-say-economists-n9sqxrdlt2t. March 11 2010). George Osborne (2010) argued that "There is a recognition that the scale of the deficit and the rapid increase in the national debt cannot safely be ignored, and that public expenditure will have to be cut." He argued that notions that expansion fiscal policy would reduce unemployment missed the importance of expectations and confidence. Hence, he concluded that "a credible fiscal consolidation plan will have a positive impact through greater certainty and confidence about the future.". Note the appeal to 'confidence', and the idea that consolidation and reductions in public expenditure restores confidence rather than maintaining or increasing public expenditure. Kalecki had noted that "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 …. 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, 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." (Kalecki, 1943, p. 350)

Kalecki (1943, pp. 347-56) raised a number of social and political obstacles to the achievement of prolonged full employment in a laissez faire capitalist economy. He argued that under sustained full employment "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 tensions" (Kalecki, 1943, p. 351). He suggested that 'discipline in the factories' and 'political stability' would also be undermined. "The fundamentals of capitalist ethics require that 'you shall earn your bread in sweat' – unless you happen to have private means." (1943, p. 351). Much may be read into these words, but I think it is reasonable to suggest that full employment may involve significant wage inflation and a fall in work intensity and labour productivity along with a decline of 'discipline in the factories'. The volume of profits would be higher under full employment (and hence the rate of profit, though perhaps not the share), with money wage rises leading to rising prices (to protect profits) and a squeeze on rentier income. As the threat of dismissal ceases to play its threatening role, work intensity may be lower at full employment, and labour productivity thereby lower than otherwise.

In the aftermath of the global financial crisis, although financial institutions were bailed out by large funds from government, programmes of austerity were soon pursued. Vercelli (2013) argues that while expansionary policies would have benefitted financial and non-financial businesses they gave full support to austerity policies. "The explanations given by Kalecki in 1943 still seems to be the right one; the political interest is stronger than the economic interest. First of all the focus of mainstream indignation was redirected almost overnight from the avidity of Wall Street to the corruption of the State and profligacy of people, especially in the PIIGS [Portugal Ireland Italy Greece Spain] countries. This abrupt change of focus was implemented through a systematic campaign through friendly economists and sympathetic mass media, and crony policy officials sought to postpone and maybe to avoid or at least water down, the radical reforms of finance and corporate governance that in 2008 and 2009 had obtained great popular support. This sudden shift in public opinion after the subprime crisis and its apparent early support by many economists, policy officials, and high-level practioners terrified big businessmen, mainly in finance, and their supporters and beneficiaries, convincing them that in the absence of a prompt, vigorous and relentless counter-offensive they would lose much of their power and privilege." (Vercelli, 2013, p.85)

Kalecki saw *laissez-faire* capitalism as inconsistent with sustained full employment. Kalecki in rather typical laconic style concluded by saying that "'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 much be scrapped." (Kalecki, 1943, p. 356). In a posthumously published paper (Kalecki and Kowalik, 1971), it was argued that "a 'crucial reform' imposed on the ruling class may stabilize the system, temporarily at least. … we have to do with just such a situation in contemporary capitalism" (p. 467). "Government intervention in the expansion of markets became an institution, making it possible to limit unemployment to a few per cent … This state of affairs (along with a considerable expansion of social security) led to a certain transformation of the working class, which on the whole became radically reformist in its attitude towards capitalism. Preserving high employment rates in the leading capitalist countries generally gives the workers a satisfactory level of real income. With high and steady employment, real wages, at least over the long term, rise along with increases in labour productivity, unless a fall in their share in national income offsets this." (pp. 472-3)

As King (2013) argues "by 1971 the crucial reform was already beginning to unravel" (p.32). King lists five aspects: collapse of Bretton Woods system of fixed exchange rates, leading to increased financial instability; financialisation; unwinding of first five principles of social democracy [government commitment to full employment, unionised and tightly regulated labour market, highly progressive taxation, comprehensive welfare state, public ownership of public utilities]; tendency for the various 'varieties of capitalism' to approach the Anglo-Saxon model; and "the so-called 'Great Moderation' after 1992 appears to demonstrate the advantages of neoliberal capitalism and to confirm the case against the 'crucial reform'.

The unravelling of the 'crucial reform' and the ushering in of the eras of neo-liberalism, globalisation and financialisation have been accompanied by rising inequality and generally slower economic growth. In recent years (say the last two decades), unemployment in industrialised countries has fluctuated and has rarely come close to what may be deemed full employment. Whilst the precise definition of full employment has always presented some difficulties, in periods times when employment was predominantly on what was regarded as a full time basis then full employment could be approximated by all those relying on labour income were in employment (with some recognition that there was some labour mobility

with those without work equal to job vacancies). Alternative measures of unemployment have been developed to reflect part-time working by many and the fluctuations in hours worked, e.g., by those on 'zero hours' contracts. Eurostat provide statistics on "labour market slack" which is the sum of those who are unemployed and seeking work (the ILO definition), Underemployed part-time workers, people seeking work but not immediately available, and people available to work but not seeking. The "labour market slack" as a percentage of what is termed extended labour force (labour force plus potential labour force), for the EU member countries averaged just under 17 per cent during the 2010s. The American U-6 measure of unemployment (total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force) averaged 14.6 per cent in the first half of the 2010s and 8.7 per cent in the second half. These figures would suggest that full employment has not been achieved.

8. Concluding comments

Kalecki recognized that public expenditure is financed by central bank money creation and the private investment expenditure is financed by bank loans, though he did not give prominence to those features. This is particularly notable in the context of the focus placed by Modern Monetary Theory on the role played by the central bank on the creation of money (at effectively zero cost). In that way the financing of the expansion of expenditure is in the hands of the banks, whether central bank in the case of government, commercial banks in the case of private investment. Kalecki also argued that budget deficits pursued to secure higher employment can always be funded. Kalecki doubted that a balanced budget would usually be compatible with full employment. In this paper, that line of argument has been extended to show that in general a balanced structural budget would not be attainable, and that pursuit of such a balanced budget position would in general be deflationary. Kalecki gave a straightforward dismissal of the argument that government debt is a burden on future generations. I have rehearsed the argument that a budget deficit designed to underpin full employment can be funded and will be sustainable. Kalecki recognised that there are fiscal costs of interest payments on an enhanced public debt (following war or a pandemic), which could be met, if required, by an annual levy on wealth.

Kalecki has become well known for his perceptions of the social and political obstacles to the achievement of full employment. His prediction that there would always be 'economic

experts' ready to provide spurious arguments to undermine the pursuit of fiscal policy designed to enable full employment was clearly shown in the aftermath of the global financial crises, and are beginning to surface again following the COVID-19 pandemic. The experiences of recent decades have highlighted that there have not been the 'fundamental reforms' required to provide sustained non-inflationary full employment.

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