Review of Political Economy

ISSN: (Print) (Online) Journal homepage: https://www.tandfonline.com/loi/crpe20

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To cite this article: Malcolm Sawyer (2023) Political Aspects of Full Employment: Eight Decades On, Review of Political Economy, 35:4, 1109-1123, DOI: 10.1080/09538259.2023.2248027

To link to this article: https://doi.org/10.1080/09538259.2023.2248027

Published online: 04 Sep 2023.

REVIEW OF POLITICAL ECONOMY
2023, VOL. 35, NO. 4, 1109–1123
https://doi.org/10.1080/09538259.2023.2248027

Political Aspects of Full Employment: Eight Decades On

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ABSTRACT
The contribution and continuing relevance of Kalecki's paper on 'Political aspects of full employment' on the 80th anniversary of its publication is the central topic. There are five sets of important and interrelated ideas in Kalecki's paper. Full employment was feasible under capitalism from the perspective of securing a high level of demand through government spending. There would be resistance, particularly from business and finance to prolonged full employment, and there are political and social constraints on long-term full employment. Fascism had secured full employment through its relationships with big business and reducing the political obstacles. A political business cycle with full employment achieved at best at the top of the cycle could be generated. The role of 'fundamental reforms' in sustaining full employment under capitalism, and the 'fate' of fundamental reforms is reviewed.

ARTICLE HISTORY
Received 19 April 2023
Accepted 9 August 2023

KEYWORDS
Kalecki; full employment; budget deficits; political constraints; business cycle

JEL CODES
E24; E6; N10; P11

1. Introduction

Kalecki's 'Political aspects of full employment' (Kalecki 1943a) (hereafter PAFE) continues to attract attention 80 years after its publication. It was widely translated and republished and revised with two significant revisions as mentioned below.[1] Osiatyński, the editor of Kalecki's Collected Works, reports a hand-written note from Keynes to Kalecki in which he said, referring to PAFE, 'an exceedingly good article and very acute'. However, Osiatyński noted that PAFE 'did not arouse wider interest for a long time' (Osiatyński 1990, p. 573). He argued that '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 1971–73, 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' (p. 574). Henley (1988) had reported it being 'still extensively cited in the economics, political science and sociology literatures. (The Social Science Citation Index records over 50 citings in the journal articles of other authors to Kalecki's paper since 1980)'. It is significant that the citations often occurred outside of mainstream economics. PAFE has often attracted attention in left-wing circles,

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[1]Osiatyński (1990, pp. 571–512) provides details of the translations and the amendments.

particularly for its portrayal of the political constraints on the use of effective fiscal policy and the achievement of full employment. Google scholar's citation count suggests continuing and rising interest in PAFE — the first available annual count relates to 1984 is 25, remaining at around that level until circa 2000, and then rising to a peak of 172 in 2016. The interests in the key ideas of PAFE have continued, and have become resonant again during the decades of stagflation and austerity.[2]

Kalecki's paper on PAFE was based on a lecture delivered in Cambridge in Spring 1942. It can be seen as a contribution to thinking about the post-war economic and social prospects against the background of the economic depressions and the rise of Fascism in the 1930s. Another contribution, Kalecki (1942, 1986), has received little attention though it presented radical proposals for post-war reconstruction as discussed later. For most of the World War 2 Kalecki worked at the Oxford University Institute of Statistics and Kalecki had been based in the UK since 1937 (on his time in UK Toporowski 2013, Chapters 9 to 14), having left his native Poland. His writings in the 1930s include papers on, *inter alia,* the business cycle driven by investment and demand (Kalecki 1933 and others), formulation of principle of effective demand and the profits — investment relationships. He had also examined the political economy of German fascism. His analysis of the cyclical nature of capitalism and of the nature of fascism inform his PAFE paper. Toporowski (2018) Chapters 3–9 cover his time in Oxford including Chapter 7 dealing with the political economy of full employment. At the Oxford University Institute, he contributed to the economic commentaries published on a three weekly cycle with Kalecki's contributions ranging over issues such as rationing, structure of taxation, budgetary policies, monetary policy.[3]

PAFE has five sets of interrelated ideas packed into ten pages. First, that full employment was feasible under capitalism from the perspective of a sufficient level of aggregate demand in general and the use of budget deficits could provide the means to achieve such a level of demand. In Section Two, I briefly outline Kalecki's arguments that full employment was feasible for a demand perspective and that the arguments raised against the use of budget deficits to achieve full employment were economically suspect.

Second, there would be resistance, particularly from business and finance to prolonged full employment. Section Three of this paper considers what is in many respects the central argument in PAFE, namely the political and social constraints on long-term full employment.

Third, and related to the second topic, the ways in which fascism functions are viewed as removing capitalist objections to full employment. Section Four briefly looks into this.

Fourth, the generation of a form of political business cycle with full employment achieved at best at the top of the cycle. Section Five considers the idea of political business cycle contrasting the ideas of Kalecki with later interpretations of the political business cycle.

Fifth, the role of 'fundamental reforms' in sustaining full employment under capitalism, and the 'fate' of fundamental reforms is reviewed in Section Six. There are some concluding comments in Section Seven.

[2]Feiwell (1974), Henley (1988), Arestis and Skuse (2004), Locksley (1978, 1980), Mair and Laramie (2002), Toporowski (2023) are amongst those writing papers with evaluations of PAFE. *Political Quarterly* has put together a collection of papers 'Rediscovering Kalecki in times of inflation'.

[3]Kalecki's contributions are included in Osiatyński (1997).

2. On the Achievement of Full Employment

Kalecki (1943a) opens with the statement that '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 that 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' (p. 322). The requirement for sufficient productive capacity to underpin full employment without inflationary pressures have often been overlooked in discussions on the achievement of full employment. Kalecki's own writings generally assumed that firms operated below full capacity and hence output and employment could be expanded in response to demand. He would later characterized capitalist economies as 'demand-constrained' in contrast to the existing socialist economies viewed as 'supply-constrained' (Kalecki 1970). Overcoming the constraints of demand through fiscal policy and other means have to be accompanied by the provision of sufficient productive capacity. However, '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 1943a, pp. 361–362).[4]

Whenever government expenditure is proposed, the question of where will the money come from is raised. Kalecki addressed this directly though little attention was given to his answer. Kalecki explained the financing of government expenditure in the following manner. He wrote

> 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 1943a, pp. 347–348)[5]

This acknowledges the point that central bank can always finance (initial finance in circuitist terminology) government expenditure, but then government expenditure is funded by bonds and tax revenues. Kalecki did not envisage any significant monetary funding for a budget deficit. It is regrettable that Kalecki did not put in a more direct explanation of the financing of government expenditure, and it was omitted in the revised version of PAFE (as in Kalecki 1971, 1972).

In fn.1 Kalecki (1943a) drew attention to 'another problem of a more technical nature is that of the National Debt'. He specifically discussed it here arising from the continuous increase in the National Debt as a result of government borrowing. He suggested that the

[4]See Sawyer (2007) for extensive discussion on Kalecki, employment and inflation.

[5]Kalecki had earlier provided a much more direct explanation when he 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 1932, p. 175).

interest on the National Debt could be funded by an annual capital tax, which he argued would not impact on output and employment. This arose in context of large budget deficits in war-time and concerns over post-war interest payments on the National Debt. In the outturn, the National Debt (relative to GDP) declined as a consequence of lower budget deficits and the growth of nominal GDP.

In Kalecki's analysis full employment would generally require a sustained budget deficit. Kalecki (1944b) criticized the UK government's White Paper on Employment Policy (Ministry of Reconstruction 1944) for not contemplating any departure from balance over a long period though it had allowed for deficits in some years (and surpluses in others). In Kalecki (1943b), he addressed 'the conviction that it is impossible to have a budget deficit in peacetime whenever it is necessary to maintain full employment if that leads to a long-run rise in the burden of the debt' (p. 96). He noted there that a continuing budget deficit may not lead to a rising debt to GDP ratio with a positive growth rate. He could have added that a total budget deficit including interest payments would lead to the debt to GDP ratio converging on ratio of deficit to GDP divided by nominal growth rate. It is the total deficit which is relevant for level of demand, though the difference between public expenditure and tax revenues may be adjudged more significant for social welfare. A debt level regarded as 'too high' could be addressed through an annual wealth tax as mentioned above.

In PAFE, Kalecki said little on what could be termed the funding of budget deficits, though in other papers he did so using the term financing rather than funding. Kalecki (1944a) set out the well-known routes through which deficit spending generates effective demand. In a sub-section headed 'where does the money come from?', he 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). He continued that 'net savings are always equal to budget deficit plus net investment, whatever the general economic situation, whatever the level of prices, wages or the rate of interest, any level of private investment and budget deficit will always produce an equal amount of saving to finance these two items', Kalecki (1944a, p. 358), writing, of course, with reference to a closed economy.

Kalecki (1944a) evaluated 'three ways to full employment' of which budget deficit was one, with re-distribution of income another which Kalecki favoured, where the propensity to spend is higher in the poorer parts of society than the richer, and highlighted in Kalecki (1944b). The stimulation of investment would contribute to aggregate demand, but Kalecki saw there were severe limits to doing so. 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.

The first section of PAFE provided, in Kalecki's words, 'a very crude and incomplete statement of the economic doctrine of full employment' (p. 324). More detailed statements were set out in other writings (e.g., Kalecki 1944a, 1944b). It provides the background to what is the main intention of PAFE, that is the political and social problems involved in achieving and sustaining full employment. Indeed, in the revised version of PAFE, the replacement of the first section was one of the major revisions, and argued that 'The assumption that a government will maintain full employment in a capitalist economy if it only knows how to do it is fallacious. In this connection, the misgivings of big business about the maintenance of full employment by government spending is of paramount importance' (Kalecki 1971, p. 138).

3. Sustaining Full Employment

Kalecki warned that there would be 'prominent so-called "economic experts" closely connected with banking and industry' (p. 324) who would oppose ideas that full employment could and should be achieved by government spending. He suggested that economic arguments would be advanced to oppose government spending though based on political opposition to the full employment doctrine.

Kalecki elaborated on capitalists' resistance to government activities to secure full employment under three headings. The first relates to the dislike of government interference in securing high levels of employment. Kalecki argued that under a laissez-faire system the level of employment depends on the so-called state of confidence, which would particularly affect private investment, and thereby 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 1943a, p. 350)

Decisions on investment are based on a range of factors including actual and anticipated profitability, and the 'state of expectations' and 'animal spirits' (to use Keynes' terminology), which can be claimed to be upset by prospects of budget deficit. Financial markets must not be upset through the actions of government. As Locksley argued 'throughout the concept runs the power of ideology of 'soundness' in matters economic, in modern parlance the 'hegemony' of business interests. Soundness can mean different things in different countries but generally can be interpreted as a balanced budget (or small deficit), a belief in the existence and efficacy of free markets and a limited infrastructural growth-dependent role for government activities' (Locksley 1978, p. 487).

The second resistance came from 'the dislike of the direction of Government spending (public investment and subsidising consumption)'. The subsidy of 'mass consumption is much more violently opposed by these experts than public investment' (Kalecki 1943a, p. 326), which I would interpret broadly to include health services and education free at the point of use, as well as a social welfare provision including unemployment benefits. 'For here a moral principle of the highest importance is at stake. The fundamentals of capitalist ethics require that 'you earn your bread in sweat' — unless you happen to have private means' (Kalecki 1943a, p. 326).

In the case of public investment, Kalecki noted that '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, etc.)' (Kalecki 1943a, p. 325). It could be added that the construction of such public investment would in general be undertaken by the private sector and contribute to their profits. In recent decades, programmes of public-private partnerships and private finance initiative have drawn the private sector into the direct financing of public investment and into provision of services related to public infrastructure.

Third, 'the dislike of the social and political changes resulting from the *maintenance* of full employment' (Kalecki 1943a, p. 324). The maintenance of full employment would mean secure employment conditions for workers reducing the disciplinary effects of losing one's job. Kalecki argued that 'the social position of the boss would be undermined, and the self-assurance and class-consciousness of the working class would grow', a line of argument much to the fore in Kalecki (1942, 1986). The 'class instinct [of capitalists] 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' (Kalecki 1943a, p. 326). This raises the issue of whether full employment is compatible with capitalism, to which I briefly return below.

In PAFE, Kalecki generally includes interests of big business and rentiers as aligned, though not always. 'A powerful block is likely to be formed between big business and the *rentier* interests … which would most probably induce the Government to return to the orthodox policy of cutting the budget deficit' (p. 330) Big business would regret the loss of 'discipline in the factories' with sustained full employment, though they would be able to pass on wage increases into price increases (and seek to increase profit margins). Financial interests would tend to lose out through higher inflation which be 'to the disadvantage of small and big *rentiers* and makes them "boom tired"' (Kalecki 1943a, p. 329). Kalecki envisaged that when money wages rose, prices would likely rise in response (as firms maintain their profit margins based on the degree of monopoly), and financial interests and rentiers would suffer from higher inflation (unless interest rates rise in a similar manner).

Many authors have written in support of the general line of Kalecki's arguments. Vercelli (2013, p. 85) talking of the austerity measures introduced in many countries in the early 2010s (following the global financial crises)

> the representatives of big business both in finance and in manufacturing fully supported these measures [of austerity policies], not withstanding the negative impacts on their balance sheets. Big financial institutions obtained a huge flow of funds from public authorities to avoid bankruptcy. What may explain their sharp opposition to a more expansionary policy? The explanation given by Kalecki in 1943 still seems to be the right one; the political interest is stronger than the economic interest.

Arguments against increasing government expenditure and budget deficits which invoke some form of 'sound finance' and by appeal to 'confidence' are frequently heard, whether rising debt being unsustainable, 'government credit card maxed out' and calls for some form of balanced budget. Feiwell (1974) argued that 'it is worth noting that most of the objections of the businessmen that Kalecki foresaw in 1943 came to light in 1945–1946 in the United States when the Full Employment Act was being debated' (p. 25). Bhaduri and Steindl (1985) saw the rise of monetarism in the 1970s and 1980s as associated with restrictive monetary and fiscal policies. 'Our basic observation is that such restrictive policies have always been supported by banks and financiers (the City, Wall Street) more than by any other group in the economy. It is they who have consistently clamoured for high interest rates and for restrictive budgetary measures. The specific monetarist theory has found a home in those circles more than anywhere else' (Bhaduri and Steindl 1985, p. 56).

4. Fascism and Full Employment

The ways in which big business 'opposed experiments for increasing employment by government spending' (p. 324) illustrated the objections to full employment which have just been discussed. An exception was Nazi Germany, where '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'. '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' (p. 326).

The manner in which Kalecki related fascism to removing capitalist objections to full employment and the suppression of trade unions is noteworthy. Later, Kalecki (1964) wrote of 'the fascism of our times' in which he spoke particularly of the rise of the OAS in France, the neo-Nazi elements in West Germany and the Goldwaterites in the USA. Kalecki (1964) argued that 'what all the present-day fascist currents have in common with Nazism is the anti-trade-union attitude, which again reflects the link with the reactionary big business groups' (p. 288). A discussion on the subsequent rises of so-called popularism and the fate of the successors to the groups Kalecki identified above would be beyond the scope of this paper. Rather, I can remarks that policies associated with neo-liberalism have sought to weaken workers power through anti-trade union policies and development of more insecure employment conditions.

5. Political Business Cycle

In his writings in the 1930s developed a theory of the business cycle (for example, Kalecki 1933) based on fluctuations in aggregate demand and investment in particular, and perceptions of capitalist economies as inherently cyclical. He foresaw a 'regime of the political business cycle' in which there would continue to be booms and slumps with full employment only reached as the top of the boom (and implicitly rather short-lived) and slumps would be relatively mild and short-lived, particularly in comparison with the pre-World War II period. Even so, the USA has experienced 12 recessions to date (using definition of two quarters of negative growth) and the UK 7, of which three have lasted five quarters.

Writing in 1955, Kalecki stated his arguments in stronger terms, when he said that 'that in nearly all capitalist countries every countercyclical intervention and every increase in government expenditure always takes place in the face of very strong opposition from various groups and representatives of various doctrines in the capitalist camp. Even in the case of armaments such opposition always exists' (Osiatyński 1991, p. 360).

As Kriesler and McFarlane (1993) note 'in stressing the importance of the distinction between achieving full employment and maintaining it, Kalecki laid the foundation for ideas which later came to be seen as the political business cycle' (p. 224). In the following decades, forms of a political business cycle were detected, and terms such as 'stop-go' cycles were widely used. Business cycles continued though with less intensity especially in the downturn though periods of unemployment rates above 10 per cent. The patterns of the business cycle were viewed through the lens of government boosting demand and thereby economic activity and declining unemployment ahead of elections. Combined with a Phillips curve type analysis, this fed into ideas that lowering unemployment would lead to higher inflation though the lags in the system would mean the lower unemployment came well before higher inflation. A further twist was added with the role of expectations — the experience of inflation generating expectations of future inflation.

Nordhaus (1975) described Kalecki (1943a) as ‘the only serious theory’ of the ‘political causes of the business cycle’. He saw Kalecki’s model as implicitly assuming ‘that business leaders and capitalists have a disproportionate control of the political mechanism. It is the unrepresentative nature of the political system which causes Kalecki’s political trade cycle’ (p.182).

Nordhaus argued that ‘representative government will lead to a similar phenomenon, although the timing and causes are quite different’. His approach rests on the behaviour of a democracy which faces choices between present and future, taking the case of inflation and unemployment and an assumed trade-off between them. Decisions will be made which are biased against future generations, in effect meaning higher inflation in the future. ‘[W]ithin an incumbent’s term in office there is a predictable pattern of policy, starting with relative austerity in early years and ending with the potlatch right before elections’. Subsequently, this line of argument led to the framing of monetary policy in terms of an ‘independent’ central bank pursuing inflation targeting through the policy interest rate with ‘conservative’ bankers deemed to place more emphasis on lower inflation than on lower unemployment. This provides, in effect, a smoke-screen for deploying unemployment as the means to suppress workers’ pressures for higher wages and restoring ‘discipline in the factories’ through threats of unemployment.

Locksley (1978) remarked that ‘in contrast to Kalecki’s model the ‘modern’ approaches abandon any notion of class struggle and hegemony; and presumably parties behave differently to classes, at least in terms of their potential performance in economic management’ (p. 489). Mair and Laramie (2002, p. 579) argue that PAFE ‘may be thought of at least as much an essay on rent seeking as on the political business cycle’. Concerns by business leaders over the maintenance of full employment relates to ‘their loss of control both over governments and their workforces and the demise of the capitalist work ethic. This will manifest itself in a falling income share’. Retaining that control and accompanying income share is ‘deemed to be worth more than the higher level of profits that would accompany full employment’. This perspective emphasizes the ways in which it is pressured from business rather than political imperatives which push the economic cycle. In Kalecki’s theory ‘it is not so much the politicians who initiate and manipulate the electoral cycle as it is the capitalist class which manipulates the economy and politicians’ (Mitchell 1988, p. 94).

The mainstream view is based on a Phillips’ curve notion of relationship between inflation and rate of unemployment, and the temptations for government to boost demand to reduce unemployment ahead of an election with perceived consequences for subsequent inflation. The unemployment rate would at best average around the so-called ‘natural rate of unemployment’ which would not satisfy the achievement of full employment. In contrast, Kalecki envisaged full employment as only reached at the top of the cycle (at best), boosted by fiscal policy, but then the pressure of the forces of big business, rentier interests (supported by 'more than one economist [declaring] that the situation was manifestly unsound') 'would probably induce the Government to return to the orthodox policy of cutting down the budget deficit' (p. 330) and a slump would follow.

6. Fundamental Reforms

In a couple of paragraphs in Kalecki (1943a) but not included in the revised version (as appeared in Kalecki 1971, 1972), he wrote that "full employment capitalism' will, *of course*, have to develop new social and political institutions which 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' (p. 331, emphasis added). In a later piece (in a symposium on monetary policy), Kalecki asked whether 'a possible tendency of trade unions to raise wages in full employment' would lead to wages rising faster than productivity and prices rising. He indicated that the outcome 'would depend on the institutional arrangements of the regime of full employment. It is no good to conjecture too much about the future functioning of such a regime. Let us have it and try it out' (Kalecki 1946, p. 84; Osiatyński 1990, pp. 407–408).

The term 'fundamental reforms' in itself says little about the nature of those reforms, though the 'new social and political institutions [would need to] reflect the increased power of the working class' (p. 331). These rather cryptic comments raised the key question of institutional reforms to capitalism which would be necessary to sustain full employment without inflationary pressures. There would, following remarks above, be a requirement for sufficient productive capacity in the relevant locations to underpin full employment.

Kalecki had published a paper on 'The Minimum Essentials for Democratic Planning' (Kalecki 1942) in September 1942,[6] by a group called Socialist Clarity Group within the Fabian Society. This group had invited 'Kalecki to give a lecture on the economic dilemmas that would face a post-War Labour government' (Toporowski 1986, p. 3). In that paper, Kalecki distinguished democratic planning and monopoly capitalist planning. The former 'implies planning for the maximum long-term satisfaction of the needs of the whole community' (Kalecki 1986, p. 19) whereas the latter involves 'planning for a maximum return to the owners of industry'. 'Monopoly-capitalist planning … in the search for a stable return (profit and interest) over a long period, will often deliberately restrict both actual production and the application of new processes and techniques to industry' (p. 20). Democratic planning would face resistance similar to, and likely more intense, that which Kalecki discussed in PAFE in respect of full employment. He argued that

> democratic socialist planning will not merely be resisted by individualist capitalists seeking a return to a *laissez-faire*, competitive economy. It will be opposed still more by the powerful

[6]The paper is reprinted in Kalecki (1986, Chapter 2), Osiatyński (1993). As Toporowski (1986) indicates the Socialist Clarity Group was composed of members of the Labour Party, but 'it is unlikely that Kalecki was ever a member of the Socialist Clarity Group, since he was not a member of the Labour Party'. Toporowski (2018, Chapter 7) discussed this paper by Kalecki alongside PAFE.

> monopoly-capitalist groups, who will fight against it in two ways: positively, by working energetically to get their own kind of planning adopted, and negatively, by resisting encroachments on their economic and social power. (p. 20)

Kalecki (1942, 1986) sketched the main features of his approach to economic planning which include the nationalization of the important enterprises (financial, industrial and public utilities), and the coordination and direction of their activity by a central institution of economic planning, responsible to Parliament. He advocated 'full public control over the banking and finance system, investment and foreign trade, and possibly, allocation of the basic raw materials and commodities' (Kalecki 1986, p. 21). There would continue to be a role for private enterprise in industrial sectors which Kalecki regarded as of secondary importance including the production of consumption goods and the distributive services.

Nuti (1986) in a paper on Kalecki and socialist planning discussed Kalecki (1942, 1986) as a prelude to discussion of Kalecki's works on central planning.

> Central planning of investment would ensure full employment of labour; Workers' Councils, representing workers, technical personnel and managers of each enterprise, now freed from the threat of unemployment, would maintain support for economic planning and exercise control over the development of their enterprises. Public control from below, together with the initiatives of a socialist government from above, would protect the system from regressing towards monopoly capitalism (Nuti 1986, p. 333)

An extensive agenda!

Kalecki saw the establishment of guaranteed full employment and economic security for workers would provide the 'mood of determination' and the '*self-confidence* amongst the workers and the lower strata of society' that would allow them to engaged in a 'heightened tempo' of social change and bring into being the institution of 'democratic socialist planning'. Once 'the sanction of the sack' or Marx's industrial reserve army was 'no longer operative', workers would increasingly challenge management, generating the social force for a radical planning movement' (Foster 2013, p. 8).

In the posthumously published paper (Kalecki and Kowalik 1971), Kalecki returned to the issue of reforms to capitalism for which the term 'crucial reform' was used.[7] They spoke of the centrally controlled capitalism in the economies of Western Europe during World War 2 which had been subsequently considerably weakened. 'What crystallized instead was a capitalist system of large corporations with supplementary markets guaranteed by government purchases, mainly of armaments, which allowed the realization of accumulated profits' (p. 472). Government expenditure (relative to GDP) had increased considerably in the post-war period and a range of industries nationalized. They argued that World War 2 had 'accelerated the 'crucial' reform process. 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 radially reformist in its attitude toward capitalism'. And a result of high and steady employment and rising real wages 'anti-capitalist attitudes have weakened considerably' (pp. 472–473).

[7]Kowalik (2004) indicates the controversial nature of Kalecki and Kowalik in the context of circa 1970 and the position of the Italian Communist Party in one of whose journals the paper was eventually published.

It was acknowledged 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, emphasis added). In light of the subsequent evolution of capitalism noted below, I wonder how much significance should be given to the phrase 'temporarily at least'.

Kowalik (2004), looking over the developments since the 1970s argued that

> one may say that in 1969–1970 Kalecki tended to be over-optimist. After all, the concept of a 'crucial reform' in his intention was to be not only a summary of what has already happened, but also a forecast. True, at the end of his considerations Kalecki admitted that some signs of future destabilization could be seen, but they were rather weak. (p. 47)

Kowalik (2004):

> future development did not confirm even this cautiously optimistic prognosis. After all, the year of publishing this chapter (1971) marked a turning point: it was in a sense the year of ending the era of Bretton Woods Accords and the two decades of remarkably successful Keynesian policy of welfare state. This was period often termed as The Golden Age of capitalism. Since the beginning of the 1970s, the regime of crucially reformed capitalism became obsolete. (p. 47)

In a similar vein 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; financialization; unwinding of first five principles of social democracy [government commitment to full employment, unionized 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'.

Joan Robinson viewed the issue in terms of a failure of capitalism to develop the appropriate new institutions to incorporate an increase in the self-confidence of workers (to use one of Kalecki's expressions) without inflationary pressures. That failure

> 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. (Robinson 1976, p. 9)

'The democratic solution, which he [Kalecki] favours, is a new settlement between capital and labour, in which powerful trade unions co-operate with the employers in return for income redistribution and other egalitarian measures' (Rowthorn 2000, p. 140). Measures of social partnership, adopted in much of Western Europe and some other industrialized countries went some way in that direction, but started to be reversed. 'In the absence of this type of co-operation, Kalecki predicted that employers and the financial sector would turn against full employment. This was an extraordinary prediction of the turn towards monetarism throughout the OECD during the 1980s, following the period of industrial strife, wage pressures and profits squeeze of the preceding decade' (Rowthorn 2000, p. 140).

In the first decades after World War 2, economic and social policies generally moved in what may be termed a social democratic direction. The shifts in political agenda were not as thorough as Kalecki would have hoped for (as outlined in Kalecki 1942, 1986) in terms of the degree of democratic planning and workers power. Elements of those shifts in the policy agenda were reversed in the neo-liberal era. The 'fundamental reforms' which Kalecki considered necessary were implemented in a diluted form and started to unravel from the 1970s onwards.

7. Concluding Comment

Kalecki opened PAFE with the optimism that most economists agreed that full employment could be secured through government spending, and briefly here and more extensively elsewhere set out the case for the achievement of full employment through budget deficits. The validity of the arguments advanced by Kalecki, and now embedded in the post-Keynesian approach to fiscal policy, continues. Kalecki was perhaps too optimistic that economists would remain persuaded of the usefulness of fiscal policy and not scared off by deficits and debt. Kalecki saw the social and political forces of capitalists and rentiers as the prime obstacles to the achievement of sustained full employment.

Writing in the mid-1960s, Kalecki asked whether the forecasts he had made turned out to be accurate, and answered 'I think they have, though — as is often the case with historical predictions, not necessarily in every detail' (Osiatyński 1990, p. 573). He said that he 'foresaw that in future crises will be mitigated in this way [by government expenditure], 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 current course of events correspond *grosso modo* with those predictions'.

Kalecki saw that full employment under capitalism would require high levels of aggregate demand underpinned by fiscal policy. There were a range of other conditions which would need to be met for full employment, notably adequate productive capacity and political and social structures which were conducive. Policy initiatives to promote investment and regional and industrial policies intended to reduce disparities of unemployment should raise productive capacity and move towards conditions of non-inflationary full employment. But those measures have not been sufficient to achieve non-inflationary full employment. If estimates of non-accelerating inflation rate of unemployment (NAIRU) are taken seriously then economies remain far from full employment. There were a range of policies during the golden age that advanced the welfare state, extended public ownership and position of workers strengthened through high levels of employment. The social and political changes went some way towards those which appeared in Kalecki (1942) as indicated above. However, it cannot be said that these social and political institutions reflected the increased power of the working class (arising at full employment). The powers of capitalists and rentiers which Kalecki said had to be challenged largely remained intact, and there was in general little movement towards workers' involvement in decision-making.

From the mid-1970s onwards, that is shortly after Kalecki's death, the era variously described as the neo-liberal era of globalization and of financialization saw reversals of the social democrat changes on the 'golden age' of capitalism. The strength of workers was limited through a range of policies including reduction of trade union rights, more 'flexibility' in the labour market engendering insecurity, growth of practices such as zero hours and temporary contracts. Capitalism was evidently unable to sustain the 'fundamental reforms' though as the quote from Kalecki above indicated there was temporary success. Now capitalism, and indeed the planet, faces even greater challenges, that of global warming, loss of bio-diversity and environmental degradation. Facing those challenges will require, inter alia, social and political transformation: we have to hope capitalism is more successful in making the necessary transformations than it was in meeting the challenges of unemployment.

Acknowledgements

I am grateful to Jan Toporowski and two anonymous referees for comments on a first draft of this paper.

Disclosure Statement

No potential conflict of interest was reported by the author(s).

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