

We need a Structural Transformation, not Short-range Counter-cyclical Policies: Against Keynesianism, the Cause of Neoliberalism

Hiroshi Onishi

The sight of the economic crisis in Europe resulting from massive budget deficits has led to a markedly critical tone concerning the undisciplined accumulation of deficits in Japan by the Democratic Party of Japan (DPJ). The sweeping advance for a while of the line of Japanese neoliberalism, typified by the reforms of Junichiro Koizumi, also was a result of the massive budget deficits at that time. If this is so, then there is considerable risk that when the misgovernment of the DPJ is addressed in the future a swing back to neoliberalism will result. In the author's view, these circumstances result from the fact that if the true nature of the present economic crisis and means of breaking out of the crisis are thought about only within the framework of countercyclical measures, then only such countercyclical measures will be considered, leaving unaddressed the fact that what truly is needed are more fundamental socioeconomic reforms. For this reason, in this paper we will look at the state of current policy with a focus on criticisms of Keynesianism, which is the economic theoretical grounding for these increases in budget deficits.

The true nature of the crisis is not insufficient demand

The first step is criticism of the view, which still persists, that sees the present crisis as being due to insufficient demand. This is related to the fact that the root source of the present crisis is correctly recognized to be the economic crisis in the United States. The U.S. economic crisis spread to, for example, China, bringing about a decrease in the rate of growth of the Chinese economy in 2008, and this in fact did result from insufficient demand in the form of decreased exports. However, this is the spread of the crisis, not its cause. While short-term effects in the form of insufficient demand

Rather than being for the benefit of the public, the present Keynesianism and the welfare state are in fact no more than simple appeasement policies.

will be felt on economies in the process of growth, the fundamental issue in the U.S. economy that is the cause of these effects is not insufficient demand.

Careful consideration of the meaning of insufficient demand will make this understandable automatically. That is, in the case of insufficient demand the following equation will apply:

Aggregate demand < aggregate supply.

Since this means

Aggregate investment + aggregate consumption < aggregate savings + aggregate consumption.

Subtracting aggregate consumption from both sides means that the following equation must apply:

Aggregate investment < aggregate savings.

This is because in the U.S. economy the problem is not over-saving but rather over-borrowing. Our criticism of the development of the U.S. credit-card society or loan society in which even the poor borrow excessively was a criticism of this over-borrowing.

Still, it is of course the fact that the U.S. economic crisis did spur a drop in demand in the form of a rapid decrease in housing demand as a result of the collapse of the subprime loan bubble. While others such as Kotz (2009) have described this in detail, the collapse of the bubble was inevitable,

and a rapid decrease in demand is a natural consequence. In short, the bubble itself must be seen to be the issue here, and a decrease in demand following its collapse is no more than a part of its effects. If that is the case, then we must ask the question of why such a bubble arose.

In fact, this subprime bubble is not the only bubble in the United States. Immediately prior to it, the country experienced an IT bubble as well. For this reason, perhaps what should be seen as the problem is the fact that these cases of additional demand themselves took place without corresponding growth in productivity (or more precisely, as we will see below demand was created that did not match the productivity conditions of zero growth). This also can be said of creation of additional demand through a constant war footing. US constant trade deficits are an inevitable consequence of this fact and are not the fault of countries such as China or Japan that have favorable balances of trade with the United States.

It also is important that this can be said about Japan as well. In Japan too, intense bubbles were formed after the shift to growth rates of zero and continued over a long period of time with no stop to wasteful public-works projects. In Japan too, creation of unnecessary demand deepened the problem.

Toward a thorough criticism on Keynesian (demand-size) economics

Thus, it is very important to recognize correctly that this issue is linked to problems in Keynesian economics, which as an economic theory is interested in demand creation alone. In evaluation of the present



economic crisis as well, Marxians who see it as a failure of neoliberalism only, not as a failure of capitalism, have adopted the approach that “the enemy (Keynesianism) of my enemy (neoliberalism) is my friend.” However, in some cases the “enemy of my enemy” is even worse than the enemy itself. More precisely, there is a possibility that they are making the problem more difficult to understand. While Marxism and *Das Kapital* addressed mainly not the size of government but issues of class between labor and capital within the factory, Keynesianism is ambiguous on these issues, instead directing people’s attention to the issue of business conditions, with the position of capitalists held constant.¹ This also is related intrinsically to the fact that most subjects of dispute between the Liberal Democratic Party (LDP) and the DPJ focus on the issue of government finances.

To make this point clear, it is useful to review Friedman’s natural unemployment rate hypothesis, which dominated the 1970s as a criticism of Keynes. While this hypothesis is said to be anti-worker in that it denied Keynesian full-employment policies, under close consideration it would seem that this is not necessarily the case. As mentioned above, in fact Keynesian full-employment policies are nothing more than attempts to increase employment through cutting real wages. In contrast, Friedman considered the issue of the natural rate of unemployment itself, arguing that instead of cutting it artificially one should look at the structural issues governing it. This refers to the expected rate of inflation and frictional unemployment resulting from matters such as the state of development of job placement systems in

the process of transformation of the industrial structure, and regardless of whether or not all of these points are correct this interest in structure is in complete agreement with Marxism. In this sense, it must be said that in terms of theoretical framework Marxian economics is closer to the neoclassical school and further from the Keynesian school. While Keynesians argue countercyclical measures, Marxists and neoclassicals face off on the subject of structural policy.

It is Keynesianism that led to the neoliberal state, or a typical class-state

The neoliberal state was a typical class-state. While welfare states alleviate the class conflicts by various ways including taxation, public finance, and labor laws, financial deficit resulted from the welfare state cannot do so, and therefore it needs special ideology that claim budget cut: neoliberalism. Therefore, although Western ideology advocated the idea that the age of ideology had ended after the collapse of the Soviet Union and Eastern Europe, the subsequent age of neoliberalism is itself the true age of ideology.

Even so, when thinking about why such an ideology held supremacy, one must again consider the issue of Keynesianism, which brought about massive budget deficits that led the public to choose small government (or sometimes additional taxation). While theoretically Keynesianism aimed to level the business cycle through built-in stabilizers, in actuality, as argued by Buchanan and Wagner, undisciplined budget deficits increased progressively. In my understand-

ing it is also the idea of Marx. He wrote in *Das Kapital*:

‘... the modern system of taxation was the necessary complement of the system of natural loans. The loans enable the government to meet extraordinary expenses, without the taxpayers feeling it immediately, but they necessitate, as a consequence, increased taxes. On the other hand, the raising of taxation, caused by the accumulation of debts contracted one after another, compels the government always to have recourse to new loans for new extraordinary expenses. Modern fiscality, whose pivot is formed by taxes on the most necessary means of subsistence (thereby increasing their price), thus contains within itself the germ of automatic progression. Over-taxation is not an incident, but rather a principle.’(*Das Kapital*, vol.1, p.784, in Dietz Verlag Version)

Here, we can read ‘national loans’ in this text as the present Keynesian spending policy over governmental revenue. And Marx said that mass taxation is the necessary result of the national loans. Therefore, here he did not say that the budget cut is the result of the national loans. But we are also suffering ‘mass taxation’ in Japan while Greek people and other European people are suffering ‘budget cut’. And we know well that mass taxation and budget cut are completely same for the people. Therefore, here we need to know the present situation is completely the same with what Marx described. The points of this argument is that mass taxation (or budget cut) is the necessary result of the overspending.

Japanese Marxians put importance on this view from the older days. For example, I can show a 1980 special issue from a Japanese academic Journal: *Zaiseigaku kenkyu* (“Public Finance Research”) no. 3 from the *Zaiseigaku kenkyukai* (“Public Finance Research Association”), entitled “*Zaisei kiki*” (“Fiscal Crisis”). It revealed the essential nature of the fiscal crisis.

Thinking about the subject in this way leads much clear understanding of the nature of the present Keynesianism and the welfare state. Rather than being for the benefit of the public, they are in fact no more than simple appeasement policies. While expenditures would be made toward



Note:

¹ This is the central argument of Nobuo Okishio's criticism of Keynes. See Okishio (1957).

the public when leeway was available in public finances, the principal purpose of doing so was as expenditures for purposes of capital. Then, in the event of an economic downturn taxes would be reduced on the rich and corporate taxes cut, out of a professed need to cut taxes to benefit the economy, and in the event of a fiscal crisis then consumption tax would be raised and welfare slashed out of a professed concern for budget deficits. Thinking about the subject in this way, the states are acting always to realize the interest of capital. In this sense, it cannot be said that the welfare state was good but neoliberalism bad. In exactly the same way, both of these existed as systems of capitalistic class-states.

Thinking about the subject in this way, the true nature of the present DPJ as an advocate of social stratification naturally becomes clear. While populist appeasement policies are being implemented, the resulting fiscal collapse is unequalled in past experience. It is likely that if things are left unchanged then as a result neoliberalism will again be the inevitable conclusion. At such a time, Marxians will need to employ judgment with sufficient care to ensure that they will not be considered equally to blame.

Of course, this is merely an extrapolation of what could occur if things remain unchanged. If things can be changed, then the return of neoliberalism can be prevented. This refers to, instead of unreasonable policies to stimulate demand as discussed at the start of this paper, forming a Japanese society that is matched to the current conditions of zero growth rates (or in the case of the U.S., an American society matched to the current conditions of zero growth rates). Specific examples include

structural policies such as shortened working hours and elimination of frictional unemployment to enable full employment even under conditions of zero growth, improvements to the safety net, establishment of industrial structures not dependent on public works, and public maintenance of sectors that have external economies. In that they all are policies intended to prevent more than the necessary degree of capital accumulation, I call these "post-capitalist" policy systems, or "socialism as post-capitalism." This terminology has been used in literature since Onishi (1992). This is the focal point of the contemporary class struggle.

References:

Kotz, David (2009), "The Financial and Economic Crisis of 2008: A Systemic Crisis of Neoliberal Capitalism," *Review of Radical Political Economics*, vol. 41, no. 3.

Okishio, Nobuo (1957), "Sokyokyu kansu ni tsuite" ("On the aggregate supply function"), *Kobe University Economic Studies, Annual Report*, no. 4, pp. 211-262, in Japanese.

Onishi, Hiroshi (1992), "Shihonshugi izen no 'shakaishugi' to shihonshugi go no shakaishugi" ("Socialism as pre-capitalism and socialism as post-capitalism"), Otsuki Shoten, in Japanese.

(This original paper was written in 2010, and revised later. This work was supported by the Japan Society for the Promotion of Sciences.)