

The Fallacies of Keynesian Policies

Guglielmo Carchedi

This article examines the effectiveness of Keynesian policies from the perspective of Marxian value theory. It starts from a sketch of the economic cycle, whose ultimate cause is identified in the decreasing production of (surplus) value following technological innovations, and argues that the strongest case for Keynesian civilian policies is not the redistribution of a (decreasing) mass of value. Rather, they should spur the production of more value through the state-induced mobilization of idle capital and/or Labor's savings. In this case, they can initially increase profitability and/or wages and/or employment, but they cannot create the conditions for an upturn and boom. Similar conclusions are reached concerning military Keynesian policies. The paper concludes by arguing that Labor should fight for state-induced, Capital-financed public works (and for reforms in general) not from the perspective of Keynesian policies (i.e., as if they were Labor-friendly, effective anticrisis devices), but from the perspective of thoroughly different social relations—that is, relations based on cooperation, equality, and solidarity.

Key Words: Marxian Value Theory, Civilian Keynesian Policies, Military Keynesian Policies, Economic Cycle, Labor's Social Policies

As faith in neoliberal policies is increasingly being shaken by macroscopic failures, well-meaning politicians, social scientists, and social movements have begun arguing again for a return to Keynesian policies in the hope that these policies will achieve what neoliberalism has not delivered. This article challenges this conviction from the perspective of Marx's value theory. The aim of the critique is not Keynesian theory in its various facets but the diffuse conviction, as commonly perceived by political and social actors, and the arguments adduced to support this conviction, that Keynesian policies are a radical or even a viable alternative to neoliberalism.

This critique requires that we begin by sketching some of the basic elements of Marx's crises theory. In what follows, Capital (upper-case letter) refers to the class of the owners of the means of production (both material and mental; see Carchedi 2005a) and capital (lower-case letter) refers to the value, both in its commodity form and in its money form, owned by Capital and invested for purposes of self-expansion. By Labor (capital letter) is meant all those who are employed by Capital, unless they perform the work of control and surveillance, or function of Capital. These latter are an extension of the capitalists even if they themselves are not capitalists. Marx calls them nonlabor (see Carchedi 1977, 1987, 1991). By labor (lower-case letter) is meant the expenditure of human energy under capitalist production relations—that is, for

Capital. Only the simplest case will be analyzed: two sectors (public works/weapons on the one hand and the rest of the economy on the other) and two classes (Labor and Capital). But the results could be extended to more complex and disaggregated cases.

In Marx's theory only labor creates value.¹ The means of production do not create value; they (help) produce use values.² New means of production (i.e., innovations) increase labor's productivity, defined as units of output (use values) per unit of capital invested. At the same time, they usually replace people with machines. The economy's proportion of constant to variable capital (also called the value composition of capital) rises. Due to this substitution, less (surplus) value is created by the innovators. But this smaller quantity of (surplus) value is embodied in a greater quantity of use values, units of output. The economy as a whole produces more use values but less (surplus) value. This is the contradictory outcome of technological innovations and at the same time the ultimate cause of economic crises.

Due to the tendential price equalization (within branches), the innovators sell their greater output at the same unit price at which their less efficient competitors sell their smaller output. The former realize a higher rate of profit but, given that they produce less value, their greater profitability cannot but come from the appropriation of surplus value from the other producers (laggards) in their own branch: that is, through the price mechanism. At the same time, there is also a transfer of value across branches whenever a branch as a whole sells its output for a value higher (lower) than the value produced by it, thus realizing more (less) value than the value it has produced. Given that capitals migrate across branches searching for the highest feasible rate of profit, the several branches' profit rates tend to equalize into an average rate of profit (ARP).³ The ARP is a statistical construct; there is no actual formation of the ARP in reality. Capitalists do not invest according to average profitability. Rather, they seek the maximum feasible rate of profit. But it is through this individual search for the maximum rate of profit that the tendency toward an average arises. Given that some sectors appropriate more value and other sectors appropriate less value than what they have produced, there is a continuous transfer of value across sectors. The ARP indicates what this transfer of value would be if all sectors realized the same rate of profit. At the same time, the ARP summarizes the state of the economy at any given moment: the value produced as well as its distribution.

If, due to technological innovations, less (surplus) value is produced in a branch, the ARP falls; and if the innovator's profit rate rises at the expense of the laggards, this fall must be the combined effect of a rise in the former's profit rate and of a

1. The choice of labor as the sole creator of value is as legitimate as any other basic assumption. The reasons for preferring it are many, including the proof of the inadequacy of all alternative candidates (for such a proof, see Carchedi 2005b, sec. 3).

2. In *Capital*, Marx (1967a) shows that it is labor as *abstract* labor that can create value. *Concrete* labor creates use values and at the same time transfers the value of the means of production to the product. Abstract labor can but does not necessarily create value: unproductive labor (commercial, financial, and speculative labor) does not create value. See below.

3. Within sectors there is a tendential equalization of prices (but no equalization of profit rates). Across sectors there is a tendential equalization of the profit rates (but not of prices).

greater fall in that of the technological laggards. Faced with increased competition and consequent financial difficulties, some of the laggards introduce the new (or newer) productive technique. They, too, increase their value composition of capital and thus their productivity. But they also contribute to the rise of unemployment. A further decrease in the (surplus) value produced follows. The ARP falls further. As Marx put it, “the rate of profit does not fall because labour becomes less productive, but because it becomes more productive” (1967c, 240). Lower average profitability plus higher unemployment mean that the downturn has set in.⁴

Due to unemployment, the demand for wage goods falls. The capitalists can try to make up for Labor’s insufficient purchasing power in two ways. They can spend less for means of production (and luxury goods, if one wanted to introduce a third sector) in order to purchase wage goods. But then realization difficulties would arise in that sector and the fall in average profitability would not be countered.⁵ Or, the capitalists

4. In essence, “periodical crises ... arise from the circumstance that now this and now that portion of the labouring population becomes redundant under its old mode of employment” (Marx 1967c, 264). For a more detailed analysis of economic crises along these lines, see Carchedi (1991, 1999, 2001); see also Kliman (2002). Other approaches submit that, given that the technological innovator achieves a higher rate of profit, the greater the number of innovators the greater the general (average) rate of profit. For a recent example, see Brenner (1999); for a critique of Brenner see Carchedi (1999). The best-known attempt to show that the ARP does not fall but rises as a consequence of technological innovations is Okishio’s. In short, Okishio conceptualizes the economy in physical terms—that is, *only in terms of use values*. If productivity increases as a result of technological innovations, the output of the innovators (means of production and wage goods) increases and, assuming falling unit output prices, the input unit prices of other capitalists decrease. The ARP rises due to decreased costs. But this is not Marx’s theory where production is production both of use values and of value (and where, therefore, technological innovations, by expelling Labor and thus decreasing the value produced, decrease total surplus value).

For a critique of Okishio, see Carchedi (1991) and Kliman (1996). For a good and exhaustive review of the debates on the ARP and on the Okishio theorem, see Cullenberg; this work argues, from an Althusserian perspective, that any action can have contradictory effects, which is true. However, the conclusion drawn from it, that therefore “there is no unidirectional, or teleological direction, whether up or down” in the rate of profit’s movement (1994, 86) clashes with the observation of a falling ARP in the downward phase and a rising ARP in the upward phase of the cycle. Also, the distinction between the enterprise “as accumulator or as profit maximizer” (104) is artificial. The capitalist enterprise is both. I do not think that to subscribe to a “teleological” notion of the capitalist enterprise “closes down an important area of potential Marxist research concerning the dialectical or overdetermined interaction of the capitalist enterprise with its environment or conditions of existence” (104–5).

5. In Marx’s words, “The ultimate reason for all real crises [here Marx refers to crises of realization] always remains the poverty and restricted consumption of the masses [the expulsion of Labor] as opposed to the drive of capitalist production to develop the productive forces [the productivity of labor through technological innovations] as though only the absolute consuming power of society [rather than the decreased production of value] constituted their limit” (Marx 1967c, 484; my comments). Thus, this quotation should not be interpreted in an underconsumptionist light, as if it were impossible to realize all the (surplus) value produced. This would then be the ultimate cause of crises. But for Marx there is no such theoretical impossibility, as his reproduction schemes (1967b) show. Even if all value and surplus value were realized, the ARP would still fall and crises would emerge, sooner or later, due to the fall in the total (surplus) value produced.

can move their capital from the wage goods sector to the means of production sector, thus decreasing the supply of the former and increasing that of the latter. But, first, for the ARP to rise, the means of production sector must have a lower value composition of capital than that of the consumer goods sector (which might or might not be the case). And, second, in the downward phase of the cycle, investments, and thus the demand for means of production, decrease, rather than increasing. There is no incentive for Capital to increase the production of the means of production. In short, neither shifts in demand nor shifts in supply (through capital movements) can counter the fall in the ARP once it has set in.

If the fall in average profitability goes far enough, some firms, among the technological laggards in whatever sector, start going bankrupt.⁶ Further unemployment follows. Sales fall due not only to both the laborers' and the capitalists' reduced purchasing power but also because, due to an uncertain future, the employed laborers increase their hoardings and because Capital invests less: that is, a part of productive capital is kept idle. A further fall in demand and more bankruptcies follow. Some means of production and some means of consumption deteriorate physically and lose (part of) their value or lose (part of) their value due to technological depreciation. The credit and speculative systems collapse. The downturn has become a crisis. On the one hand, Capital as social relations has been destroyed: the relationship between workers and capitalists has been severed. On the other, money capital lies idle. This is matched by unsold commodities. Excess money and commodity capital has been created. Crises generate both excess capital (in its money and commodity form) and lack of Capital (as social relations).

The sketch above is extremely concise and abstract. To make it more concrete, many elements would have to be added. Of paramount importance, consideration of the financial and speculative sphere would allow an analysis of the peculiarities of the timing and stages of the cycle but would not alter substantially the mechanism described above. While concrete business cycles develop through the interaction of the real and the financial sector, neither financial and speculative transactions nor the financial institutions (including the central banks and their interventions aimed at regulating interest rates and other monetary and financial variables) can increase the production of (surplus) value, whose decrease is the ultimate cause of crises.⁷

At a certain point, the downturn turns into its opposite. What are the conditions for this to happen? If, during crises, lower profitability is accompanied by a decreased production of (surplus) value and use values (due to bankruptcies and closures), a sustained recovery (resulting into a boom) requires not simply an increasing ARP but also an increasing production of use values incorporating, as a whole, an increasing quantity of (surplus) value. This implies that the markets for this greater output must be created—that the greater (surplus) value must be realized. In short, *the greater*

6. Lower sale of wage goods translates as lower demand (sale) for the means of production needed to produce those goods, lower purchasing power for the capitalists producing wage goods to purchase luxury goods, and so on. It is the weaker capitalists in any sector who will go bankrupt first.

7. For a discussion of post-Keynesian theories of the business cycle (whose focus is the financial sector), see Evans (2004).

ARP must be part and parcel of expanded reproduction. The question, then, is how the same factor (technological competition) that creates the downward movement (the expulsion of Labor and the consequent fall in the ARP and contracting markets) can also create the opposite movement (growing profitability and expanding markets).⁸ Or, the question is how the same factor can cause both the tendency (the downward movement) and the countertendency (the upward movement) and how the latter can temporarily overcome the former. Consider some factors causing the countertendential movement, or countertendencies.

First, technological innovations decrease the output's unit value and thus the unit value of the produced means of production. On this account, the value composition of capital falls and the ARP rises.⁹ It would seem that it would be just as legitimate to assume that the ARP rises, rather than falling, tendentially. This point has been hotly debated but the result has been inconclusive. The thesis submitted here is that the reason for this disappointing result has been the failure to introduce the temporal dimension into the analysis. As in the debate on the so-called transformation problem, the major stumbling block for a proper understanding of the issues is the simultaneist approach.¹⁰

More specifically, if two temporally distinct movements are considered to be simultaneous, it is impossible to decide which of two is the tendential and which the countertendential one. But if it is recognized that a movement temporarily precedes another one, then the latter can only be a consequence of, a reaction to, the temporary obstacle to the realization of the former: the former can only be the tendency and the latter can only be the countertendency. In the case of the ARP, technological innovations first reduce the total (surplus) value produced and, in case they are applied to the production of the means of production, they reduce the unit value of the means of production as outputs of a certain period. Given that those means of production are also the inputs of the following period, they reduce the value composition of capital and thus increase the ARP of the following period. Thus, they *first* reduce the ARP and then, *in the next period*, they increase the ARP. From a temporal point of view, the fall in the ARP can only be the tendency and the rise the countertendency. Can the rise in the following period be greater than the fall in the preceding one? Yes, but this does not modify the tendentially falling nature of the ARP. The next wave of technological innovations will cause again first the tendency and the countertendency. If the ARP falls, it is the tendency that realizes itself (the tendency is stronger than all the countertendencies, and not only this particular one).

8. "In a general way, the same influences which produce a tendency in the general rate of profit to fall, also call for counter-effects, which hamper, retard, and partly paralyse this fall" (Marx 1967c, 239).

9. Also, the physical and technological depreciation of capital reduces the mass of capital on which the rate of profit is computed. To focus on the real issue, the technical composition of capital is kept constant.

10. For the simultaneist view of the transformation problem, see the contributions in Freeman and Carchedi (1996) and Carchedi (1984, 2002, 2005b).

If it rises, the opposite holds. This is the cycle. As in the debate on the transformation problem, the confusion is possible only within a simultaneist approach.¹¹

Second, the expulsion of Labor weakens working-class combativeness, thus decreasing real wages, increasing the intensity of work, boosting the flexibility of the labor force, and so forth. These factors *increase the rate of exploitation* and thus the ARP. Also, technological innovations can reduce the value of wage goods, similarly to the means of production. The value of labor power falls and the rate of exploitation rises: the ARP rises, too. The increase in the ARP due to an increased rate of exploitation (itself due to a decrease in the unit value of wage goods) is a countertendency, too, for the same reasons as those submitted above concerning the fall in the unit value of the means of production.

Third, the closures and bankruptcies of the weaker capitals create the possibility for the stronger capitals, those which have survived the crisis, to step in and expand the scope of their operations on the basis of their higher profitability. The destruction of capital caused by the fall in the ARP thus *creates the conditions for new investments*—that is, for newly expanding markets and thus for capital accumulation. Also, technological innovations create new products and thus new needs (new markets). This, too, creates the conditions for capital accumulation and thus for the greater employment both of means of production and of Labor.

These countertendencies not only check the tendency but also grow, as it were, within the tendency. They keep growing up to the point when their combined effect causes a reversal of the movement. Those firms that have survived the crisis and can operate under conditions of higher profitability can expand their scale of activity (investments) while new firms are formed to produce both old and new products. This creates the demand both for means of production and for labor power. New investments create employment (they are value-producing) rather than destroying it. Initially, the greater output as well as the purchase of the unused means of production and labor power can be financed through idle money capital. Subsequently, due to increased employment and production, to the greater output there corresponds a greater purchasing power needed to buy it. The problem of realization fades away. From that point on, Capital as social relations is recreated on an expanding scale; the greater output (value) is absorbed thanks to the greater purchasing power deriving from increased employment; and the mass of profits rises due to the higher profitability following the increased rate of surplus value inherited from the crisis period. This complex movement is summarized by a sustained increase both in the ARP and in the scale of reproduction. The economy has taken off again. The countertendential movement has become more powerful than the tendential one. But this movement, in its turn, carries within itself the seeds of the new crisis (new technological innovations as a result of heightened competition). Due to expanded reproduction, the mass of profit grows while the ARP starts falling again. As

11. The tendential fall in the ARP is a cyclical, not a secular, movement. Emphasis on it is not meant to show that the system will inevitably break down or that a breakdown, if and when it will occur, will lead inevitably to socialism (these are not Marx's notions). Rather, it provides theoretical evidence for the crises-ridden nature of capitalism and for the need to replace it with a different social system. The secular fall in the ARP is alien to Marx, even if not to some Marxists.

Marx puts it “the same laws produce for the social capital a growing absolute mass of profit, and a falling rate of profit” (1967c, 219). As the average rate of profit falls sufficiently, accumulation stops. Eventually, the tendency (lower ARP and contracted reproduction) gains the upper hand again.

Are Civilian Keynesian Policies Effective and Labor-Friendly Anticrisis Policies?

In times of economic depressions and crises, when capitalists reduce their investments and workers their spending, the state can resort to a specific form of anticyclical measures: Keynesian policies. As defined here, they are the *appropriation and/or borrowing by the state of idle capital and/or of Labor's idle savings in order to commission public works and/or weapons*. These policies mobilize productively resources that would otherwise remain unutilized. In this way, the state stimulates the production of new (surplus) value while at the same time guaranteeing its realization.¹² Supposedly, these measures can hold back the upcoming crisis, thus improving the living and working conditions of Labor. To assess whether this is really the case, let us begin by clarifying some concepts.

Some Preliminary Remarks and Definitions

First, capital is either private or state capital, according to whether the means of production are privately or state owned. The state can either commission public works and/or weapons to the private sector or carry out these activities itself, through state-owned companies. While the analysis applies to both cases, *mutatis mutandi*, what follows assumes that the state commissions private Capital.¹³

Second, by idle capital is not meant those reserves that facilitate the functioning of the system. For example, some money is set apart in order to settle credit at a future date (de Brunhoff 1973, 116–7) or for future investments, or to be able to work without interruptions (Marx 1967b, 445). While some capitalists withdraw money and save, others purchase on credit, and while some accumulate reserves (and decrease spending), other spend previously accumulated reserves (and increase spending). Without these reserves and credit, the economy would work far less smoothly, if at all. Idle capital, on the other hand, is money not spent as means of production and labor power because of falling profitability and rising bankruptcies. This idle money obstructs the working of the system rather than facilitating it. Similarly, Labor's idle savings are not those that lubricate the economic process: for example, those whose

12. The production of public works and weapons is, to a certain degree, independent of crises and depressions. But its extent is certainly conditioned by the phase of the cycle. What follows focuses on Keynesian policies as an anticyclical measure.

13. This hypothesis is in line with the relatively recent spate of privatizations, also in the military industry. “By the early 2000s a large part of the arms industry was privately owned in most major arms-producing countries.” This applies also to “the provision of services (outsourcing)” (Stockholm International Peace Research Institute 2002, 341).

counterpart is the credit that fuels the purchase of wage goods, but those that correspond to unsold wage goods because in the negative phase of the cycle the laborers fear (experience) lower wages and unemployment.¹⁴

Third, idle capital and savings are not money hoarded under mattresses. Usually, they are deposited with financial institutions that must invest (lend) them. They *are* invested. Only, during depressions and crises it becomes increasingly difficult for the borrowers to invest in the productive (of surplus value) sphere, given that productive capital itself experiences increasing investment difficulties. Then, this money flows to the financial and speculative sectors, which are unproductive. Thus, these investments have no impact on the production of (surplus) value. To be successful, Keynesian policies should divert this capital invested unproductively toward the production of (surplus) value.

Fourth, by Keynesian policies is usually meant demand stimulation through *redistributive* measures. Here, on the other hand, Keynesian policies concern the *production* of new (surplus) value. The reason is that redistributive measures *alone* cannot bring about the condition for an upturn. Let us briefly see why. Redistribution can be based on state appropriation or borrowing. Consider appropriation first. Appropriation of idle capital in order to give it to Capital would leave the situation unchanged. The same holds for the appropriation of idle savings in order to distribute them to Labor. A third option is the appropriation of capital and its distribution to Labor. This decreases profits and cannot spur recovery. There remains only one possibility: the appropriation of Labor's savings and their redistribution to Capital. This does increase the ARP. However, this is the very opposite of what it is meant by Keynesian policies. The hypothesis that the state borrows Labor's savings or idle capital instead of appropriating them does not change substantially these conclusions. At some point, the state will have to appropriate value in order to pay back both principal and interest.

Keynesian authors would argue that the above disregards that (1) the economy exits the crisis through increased spending (rather than production of surplus value); (2) Labor should be the recipient of this transfer because Labor's propensity to spend is higher than Capital's propensity; and (3) this initial expenditure stimulates demand by a multiple of itself through successive, even though decreasing, cycles of spending and thus economic growth (the multiplier). But this is wrong, irrespective of the size of the multiplier.

Without an increase in the production of (surplus) value, only what has already been produced but not yet sold can be purchased—that is, there can be only induced realization. For example, suppose that as a result of a technologically induced rise in the value composition of capital, the ARP falls from 30 to 20 percent (i.e., Labor's size shrinks). The ARP falls because less (surplus) value has been produced and not because some commodities have not been sold. On the contrary, the assumption is that all commodities are sold—that the whole of the decreased quantity of value has been

14. Some authors hold that savings reduce consumption and investments and thus depress the economy. But this applies only to idle capital and savings. Moreover, they are not the cause but the effect of the depression. Others hold that savings are necessary for future production. But this does not apply to idle capital and savings.

realized. However, if for whatever reason some goods remain unsold, the ARP falls below 20 percent. If the state appropriates/borrows (idle) capital and/or savings and gives/lends them to Labor and/or Capital, so that the unsold commodities are now sold, the ARP can at most climb back to 20 percent. The crisis of realization is taken care of, but the crisis of profitability is not countered, even if all commodities are sold.

It is possible that induced realization spurs new investments by private Capital. But the new investments should be in the productive (of surplus value) sphere. However, if profitability in the productive sphere is falling, the extra capital is invested basically in the financial and speculative sphere. Induced investments in the productive sphere might follow only if the real situation has already begun to improve, if there has been an upturn in the economy because the production and realization of (surplus) value has started to increase. That is, the virtuous cycle of realization and investments is activated when the economy is already in a phase of recovery (i.e., when profitability has already been or is being restored) but is not triggered in the contrary case, which is the case dealt with here. Induced realization and the investments possibly spurred by it cannot precede a recovery: they can only accelerate it after it has started.¹⁵

Civilian Keynesian Policies

On the basis of these preliminary remarks, it is now possible to examine the effectiveness and class nature of Keynesian policies. If private Capital fails to invest the idle savings and capital, the State can take over this function by appropriating or borrowing idle capital and/or savings. With them, the state commissions private works and thus the production of (surplus) value and guarantees its realization. The question is whether this state-induced and -guaranteed production of extra (surplus) value and output can provide a way out of crises while, at the same time, improving Labor's working and living conditions. This section deals with civilian Keynesian policies (public works, such as schools, roads, hospitals, and so on), and the following one with military Keynesian policies (weapons).

The following symbols will be used: PW = public works;¹⁶ RE = the rest of the economy; c = constant capital; v = variable capital;¹⁷ s = surplus value; c^{PW} , v^{PW} , and s^{PW} = c , v , and s in the public works sector; c^{re} , v^{re} , and s^{re} = c , v , and s in the rest of

15. Neoclassical economists criticize the multiplier by arguing that its size is far less than what Keynesian authors think. This critique, whether substantiated empirically or not, remains within the Keynesian theoretical frame. It is also argued that deficit spending does not create new wealth inasmuch as the state must pay back interest by appropriating that value from private Capital. The state sector grows at the cost of private Capital (the crowding-out effect). The point, however, is that even if the state could borrow free of interest from private capital in order to finance redistributive policies, (1) there would be no increase in value but only the realization of already produced value and (2) in the downturn there would be no production induced by this increased realization.

16. To simplify matters, the capital invested in public works is supposed to include not only the capital needed for their construction but also that required for their maintenance over their whole life span.

17. It is assumed that a certain variable capital represents a certain number of employed Labor.

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the economy; s = rate of surplus value (s/v);¹⁸ ARP = average rate of profit; Q = value composition of capital (c/v); Q_{pw} = average value composition in the PW sector; and Q_{re} average value composition in RE. Abstractly, there are three separate cases, according to the source of financing. In reality, Keynesian policies are a combination of these theoretically clear-cut cases.

Case 1: Capital-financed Keynesian policies. If $Q_{pw} > Q_{re}$, the capital invested in PW employs less Labor and thus produces less surplus value in percentage terms than the capital invested in RE. The effect of the production of PW on the ARP is negative. We must then assume that $Q_{pw} < Q_{re}$. Consider the formula of the average rate of profit: $ARP = s/(c + v)$. If ARP^{t1} indicates the ARP at time $t1$ (i.e., before an increase in Q) and ARP^{t2} indicates the ARP at time $t2$ (after that increase), then:

$$ARP^{t1} > ARP^{t2}.$$

At $t3$ idle capital (IK) is formed. IK appears in two forms: as unsold commodities, whose value is (IKc), and as unspent money (IKm). IKc implies that some means of production are not sold and some labor power is not bought—that is, that some wage goods are not sold. IKc is thus the value of the unsold means of production and of consumption. On the aggregate level, $IKc = IKm$. If commodities for a value of IKc are not sold, Capital suffers a loss equal to IKc. Then,

$$ARP^{t3} = (s - IKc)/(c + v)$$

which is smaller than ARP^{t2} and thus smaller than ARP^{t1} . At this point, the state intervenes and appropriates all the IKm (which corresponds to IKc), which it uses to commission PW. The producers of PW use that money to purchase the unsold commodities; that is, the capitalists purchase the unsold means of production and labor power and the laborers purchase the unsold wage goods. IKc disappears from the numerator (all commodities are sold) but is replaced by IKm, the loss suffered by the expropriated money holders:

$$ARP^{t4} = (s - IKm)/(c + v)$$

so that $ARP^{t3} = ARP^{t4}$. At time $t5$ PW are built. Now, IKm is invested as c^{pw} and v^{pw} so that s^{pw} is produced. Then,

$$ARP^{t5} = (s^{re} + s^{pw} - IKm)/(c^{re} + c^{pw} + v^{re} + v^{pw})$$

This formula assumes that all IKm is appropriated. Suppose now that only a part of it (to be called L) is appropriated. In this case, some loss is suffered by the owners of money capital (L) and some by the owners of commodity capital (IKc). Then,

$$ARP^{t5} = (s^{re} + s^{pw} - L - IKc)/(c^{re} + c^{pw} + v^{re} + v^{pw})$$

Given that the greater is L the lower is IKc (and vice versa), the loss in the numerator does not change, irrespective of the size of L. However, the ARP is

18. The assumption is that s' is the same in both sectors (PW and RE) due to Labor mobility.

affected because the greater the IK_m appropriated, and thus L , the greater the capital invested in PW and thus the greater the effect on the ARP .¹⁹

In this formula, the height of the ARP is directly related to the size of the difference between Q_{re} and Q_{pw} (because PW use a higher proportion of labor power and thus produce a higher percentage of surplus value, s^{PW}), to the height of the rate of exploitation, s , and to the size of L . It is inversely related to the size of IK_c .²⁰ Given that Q_{re} and Q_{pw} are rigid, as the economy sinks into depression, IK_c grows. The resistance to the expropriation of IK_m grows, too. Thus, *the effectiveness of Capital-financed Keynesian policies on the ARP depends, in the last instance, on whether Labor is sufficiently exploited. If it is not, the rate of exploitation has to increase concomitantly with Keynesian policies.* If this does not happen, ARP^{t5} will be lower than ARP^{t1} or even ARP^{t2} . As for employment and total wages, they increase with the

19. To focus on the essence of the problem, it is assumed that all the IK_m appropriated (L) is actually invested in PW .

20. A few numerical examples will illustrate the above. In all the examples, the initial investment (at t_1) is $85c = 15v$. Each example is built upon a temporal sequence (i.e., t_1 through t_5).

Example 1. Suppose $s' = 100\%$, $IK_c = 10$, $Q_{re} = 9$, and $Q_{pw} = 0$ (the most favorable hypothesis for the success of KP). Then,

t_1 : $85c + 15v + 15s = 115V$; $ARP = 15\%$.

t_2 : technological innovations cause an increase in Q . Suppose $90c + 10v$. Then, $90c + 10v + 10s = 110V$; $ARP = 10\%$.

t_3 : $IK_c = 10$ is formed. $IK_m = 10$. The owners of commodities suffer a loss of 10: $ARP = 0\%$.

t_4 : the state appropriates $IK_m = 10$ and commissions PW . All the unsold commodities are bought as inputs by the capitalists to whom PW have been commissioned ($IK_c = 0$), but now the loss is suffered by the owners of capital who have been expropriated of 10. $ARP = 0\%$, as at t_3 .

t_5 : RE invests 10 less (according to its Q at t_2 ; i.e., $-9c$ and $-1v$) and PW invests $0c + 10v$. Then, $RE = 81c + 9v + 9s$ and $PW = 0c + 10v + 10s$. Given that $IK_m + IK_c = 10$, the ARP is $(9 + 10 - 10)/100 = 9\%$. Wages and employment surpass their t_1 level ($19 > 15$), but the ARP remains well below its t_1 level ($9\% < 15\%$).

Example 2. Suppose that $L = 5$. Then at t_5 , $RE = 81c + 9v + 9s$ and $PW = 0c + 5v + 5s$ so that $ARP = (9 + 5 - 10)/100 = 4\%$ (notice that the ARP is computed on all capital and not only on that which is actually invested). *The effect of KP on the ARP , wages and employment grows with the increase in the size of L .*

Example 3. Let us now change IK_c (e.g., $IK_c = 20$) in example 1.

t_1 : $85c + 15v + 15s = 115V$; $ARP = 15\%$.

t_2 : $90c + 10v + 10s = 110V$; $ARP = 10\%$.

$t_3 = t_4$: $IK_c = 20$; $ARP = -10\%$.

t_5 : RE invests 20 less (according to its Q at t_2 , i.e., $-18c$ and $-2v$) and PW invests $0c + 20v$. Then, $RE = 72c + 8v + 8s$ and $PW = 0c + 20v + 20s$. $ARP = (8 + 20 - 20)s/100 = 8\%$. This is lower than 9%, the ARP with $IK_c = 10$. Wages and employment grow to a level greater than their t_1 level ($28 > 15$). *Thus, the greater IK_c , the greater the effect of KP on wages and employment but the smaller their effect on the ARP .*

extent of state intervention and thus relative to the lack of Keynesian policies but, if Labor is not sufficiently exploited, this increase in total wages and employment cannot hold back the fall in ARP.

The conditions for Keynesian policies to have a positive influence on ARP are thus very stringent: Q_{pw} must be lower than Q_{re} . If this is not the case, Keynesian policies cannot work. Moreover, Q_{pw} must be sufficiently lower than Q_{re} ; IKc must be sufficiently low; and s and L must be sufficiently high. But even if these conditions are met, the greater is L , the appropriation of capital from the private sector, the smaller becomes the basis upon which state Capital rests and the greater becomes the state sector (the state-owned outcome of PW). Capital-financed Keynesian policies imply the contracted reproduction of the private sector and thus undermine the possibility to resort to these policies in the longer run. Moreover, the condition that $Q_{pw} < Q_{re}$ implies that the state commissions PW to firms with low technology (the same bridge can be built with more advanced or with less advanced technologies) and thus low productivity. In the long run, the use of successful Keynesian policies stimulates the growth of low-productivity firms. In short, Capital-financed Keynesian policies *can create the immediate conditions for an upturn of the economy (a higher ARP) and can increase both employment and wages but on condition that Labor is sufficiently exploited. Moreover, in the longer run, they weaken the private sector's competitiveness and undermine the very basis upon which they rest.* The greater the immediate advantages for Labor in terms of employment and total wages, the greater private Capital's economic difficulties (due to loss of competitiveness and to decreasing reproduction) and the greater the risk of bankruptcies and consequent unemployment in the private sector. Eventually, Capital-financed Keynesian policies cannot but hurt Labor as well.

Case 2: Labor-financed Keynesian policies. Let S indicate Labor's idle savings. To these savings there correspond unsold wage goods, unrealized value in commodity

Example 4. Let us change Q_{pw} (i.e., $Q_{pw} = Q_{re} = 9$). Then,

$$t1: 85c + 15v + 15s = 115V; \text{ARP} = 15\%.$$

$$t2: 90c + 10v + 10s = 110V; \text{ARP} = 10\%.$$

$$t3 = t4: IKc = 10.$$

t5: RE $81c + 9v + 9s$ and $PW = 9c + 1v + 1s$. The ARP is $(9 + 1 - 10)s/100 = 0\%$, down from 9% (the case of a smaller Q_{pw} in example 1). Wages and employment fall too. *Thus, the greater is Q_{pw} , the smaller are wages, unemployment and the ARP.*

Example 5. Let us now change s' (e.g., $s' = 300\%$). Then,

$$t1: 85c + 15v + 45s$$

$$t2: 90c + 10v + 30s$$

$$t3 = t4: IKc = 10$$

t5: RE $= 81c + 9v + 27s$ and $PW = 0c + 10v + 30s$. The ARP is $(27 + 30 - 10)/100 = 47\%$ which is greater not only than 9% but also than 15%, the ARP at t1. *Thus, the greater is s' , the greater is the effect of KP on the ARP.*

form (IKc). This is a loss. Since $IKm = 0$, $L = 0$ and there is no loss for Capital. The state appropriates S . Let us call that part of S appropriated by the state, S_a . If $S_a < S$, IKc is positive and the loss is $IKc - S_a$. Then,

$$ARP^{t4} = (s - IK + S_a)/(c + v)$$

which shows that ARP grows as S_a increases. At $t5$, S_a is invested in PW. Then,

$$ARP^{t5} = (s^{re} + s^{pw} - IKc + S_a)/(c^{re} + c^{pw} + v^{re} + v^{pw})$$

If S_a is invested in PW, it is not invested in RE which thus invests less, by S_a . Then, the ARP can grow if $Q_{pw} < Q_{re}$. The condition for ARP^{t5} to go back to its $t1$ level is that S_a is sufficiently high and Q_{pw} is sufficiently low. Here, too, the chances of success are negligible. In fact, not only in reality $Q_{pw} > Q_{re}$. Also, as the crisis advances S decreases (actually, Labor sinks into indebtedness). *Labor-financed Keynesian policies become the weaker the greater is the need for them.* Moreover, while employment might grow with the size of the invested S_a , wages decrease because the appropriation of S_a corresponds to a reduction of real wages. Labor as a whole becomes poorer even if employment and the ARP might increase. This is the class nature of Labor-financed Keynesian policies.²¹

Case 3: Credit-financed Keynesian policies. Given that credit must eventually be paid back, the state has to resort to value appropriation (from Capital and/or Labor) through taxation at a later date. Alternatively, it can resort to forms of debt reduction, such as inflation and default. The effects are the same as those analyzed above concerning Capital- or Labor-financed Keynesian policies. The crisis is not only merely postponed. It is worsened because of the accumulation of principal and interest.

These conclusions do not change substantially if the question is introduced as to who pays for the use (rather than the construction) of PW. If private Capital pays, its profits decrease and those of state Capital increase by that much. There is no increase in ARP. Moreover, this redistribution weakens private Capital and ultimately cannot but have negative repercussions for state Capital as well. If Labor pays, state Capital's profits go up, and state Capital realizes the value of the unsold commodities at the expense of Labor. However, as pointed out above, the increase in the ARP due to redistribution from Labor to Capital makes possible at most the realization of (surplus) value previously unrealized but cannot jump-start the economy unless it is part of expanded reproduction.

Left Keynesians agree that Keynesian policies cannot ward off crises, but for different reasons. For example, the greater the state-induced investments and thus state property, the greater the state bourgeoisie, and the greater the resistance of private Capital to a further enlargement of the state bourgeoisie. Or, the closer the

21. The argument that after World War II Keynesian policies have made possible a long cycle of growth reverses the order of causation. It was the great post-World War II economic upsurge that made Keynesian policies possible. As expansion lost its momentum, and with it the production of surplus value, the basis of Keynesian policies waned. See Carchedi (2003).

economy gets to full employment through Keynesian policies, the greater the threat (for Capital) of higher wages and thus private Capital's resistance. Or, Keynesian policies are limited by politics of budgetary balance that restrict borrowing.²² These are valid arguments but they do not go to the core of the matter because they stress external constraints. In reality, the limits of Keynesian policies are intrinsic.

To sum up, civilian Keynesian policies cannot create the conditions for a sustained upturn and boom. If Capital-financed, they presuppose that $Q_{pw} < Q_{re}$ (an unlikely proposition) and must rest on a sufficiently high appropriation of IKm (and thus weaken the economy's competitiveness and undermine the very basis upon which they rest) and on a sufficiently high rate of exploitation (and thus are far from being Labor-friendly). If Labor-financed, they presuppose that $Q_{pw} < Q_{re}$, the possibility to resort to them is the weakest right when they are most needed, and they decrease real wages (again, they are far from being labor-friendly). If the possibilities of appropriating idle capital and Labor's savings have exhausted themselves, private Capital resorts to the privatization of PW and to the increase in the rate of exploitation. Neoliberalism is a direct consequence of Keynesian policies.

Of Weapons and Waste

Civilian Keynesianism is not the only type of anticrisis state intervention. There are two alternatives.²³ First, if commodities cannot be sold, they can be bought by the State and then either destroyed or degraded. The type of labor that destroys value has been analyzed elsewhere (Carchedi 1991). This type of labor can destroy either the whole commodity (like filling ditches after having dug them up) or only part of it. The value of the commodity is reduced if that commodity has been transformed into a different type of commodity that would have cost less labor to produce. This is economic degradation.²⁴ The realization crisis is countered. Non-Labor cannot create realization problems because, by definition, it does not create (surplus) value. But, for the same reason, it cannot hold off the crisis of profitability.

The other option is given by the state-commissioned production of weapons: military Keynesianism. This is, like the production of public works, production of (surplus) value. All the results reached in the previous section concerning the unlikelihood of public works starting an upturn apply here, too, and will not be repeated.²⁵ But there are specific advantages and disadvantages (for Capital).

22. Thus, for the European so-called Center-Left, the culprit for mass unemployment is the EU Stability Pact.

23. Some of the themes of this and the previous section can be found, in an extremely concise version, in Carchedi (2002).

24. For examples concerning the Common Agricultural Policy, see Carchedi (2001, chap. 6).

25. The fall of the average rate of profit is not due, as submitted by Sraffian economics, to the arms (or luxury) industry having no effect on the profit rate (see Kidron 1967). Arms are nonreproductive goods, but this is a different, even though related, matter. These industries do produce value (they transform use values under capitalist production relations) and thus surplus value. See Carchedi (forthcoming).

Concerning the latter, the production of weapons is even less likely to restore profitability than public works because it is usually very technologically advanced, with a higher value composition than the rest of the economy. Also, unlike public works, weapons are nonreproductive goods. Their production hampers the physical reproduction of the economy. And finally, weapons are commodities that, in times of peace, are mostly not used. The labor that has gone into them (value) is thus wasted. This, too, hampers the physical reproduction of the economy.

But there are advantages as well. First, if weapons are exported, the producers of weapons appropriate international value from other, foreign capitalists due to the former's higher value composition (unequal exchange).²⁶ Second, science- and technology-based military innovations are the basic driving force in, and directly support, the development of civilian science and technology. Since World War II, practically all the major innovations in the civilian sphere have been first generated by military research and development. This gives the technological leaders a competitive advantage that makes possible the appropriation of international surplus value. Third, the use of public works can become part of the goods considered to be necessary for the reproduction of labor power and thus can lead to an increase in real wages. This danger is avoided if resources are channeled into the military industry. And finally, military might is a necessary condition for imperialist policies, thus for value appropriation from weaker countries.

Once imperialism is introduced into the analysis, the positive effects on the ARP attributed to civilian Keynesianism in the imperialist countries can be seen to be in fact, at least partially, the result of the appropriation of surplus value from the world working class, via foreign capitals, thanks also to military Keynesianism. Disregard of this fundamental point gives Keynesian policies much more credit than they deserve. There is thus no contraposition between civilian and military Keynesianism. The former is partly made possible by the appropriation of international value inherent in the latter.

If neither civilian nor military Keynesian policies can jump-start the economy, the alternative is war. The use of weapons in time of war is a specific, powerful method of destruction of excess capital in its commodity form, of value that cannot be realized in times of peace. Their main contribution to an upturn is not through employment and the extra production of surplus value (which are modest because of their high value composition) but through the destruction of surplus capital: the more commodity capital is destroyed (both as weapons and as the other commodities that are destroyed by those weapons), the more commodity capital can be subsequently created. At the same time, this expanded reproduction is spurred by the higher rates of exploitation, and thus of profit, induced by wars. Wars make possible the cancellation of the debt contracted with Labor (e.g., inflation destroys the value of money and thus of state bonds) and the extraction of extra surplus value (the laborers, either forced or instigated by patriotism, accept lower wages, higher intensity of labor, longer working days, etc.). Wars thus create the conditions for an economic upturn. Capitalism needs weapons and thus wars.

26. The tendential appropriation can be computed on the basis of the ARP.

If capitalism needs wars, wars need enemies. The imperialist nations display great ingenuity in finding, or creating, new enemies. Before the fall of the USSR, the pretext for the arms industry was International Communism. After the Fall, International Communism has been replaced by Arab Fundamentalism and International Terrorism. As the wars against Afghanistan and Iraq show, the substitution is now complete. The attacks of September 11, 2001, were a golden opportunity for the arms industry and U.S. imperialism. This shows that political and ideological factors are of paramount importance for the modes and timing of the conflagration, but they themselves are determined by economic factors. The notion that wars are caused by extraeconomic factors is simply wrong. The Western world has exported (created) countless wars in many dominated countries and has engaged in military Keynesian policies for the above-mentioned reasons.

After a war is over, a period of reconstruction follows. In the countries hit by war, the production of consumption and investment goods can restart, and infrastructures can be rebuilt while the rate of exploitation has been reduced. The two basic conditions for economic recovery have been created. This is the general principle. However, to understand the present conjuncture, a specific subcase should be mentioned: that of the imperialist countries waging wars against, and on the territory of, the dominated countries. In the former countries, only those weapons that have been used to wage the war elsewhere are destroyed. This might provide an insufficient impulse for recovery unless the former countries provide the commodities as well as the capital needed for the latter's reconstruction. By first destroying another country and then offering aid to rebuild it, they create outlets for the production and export of their own goods without themselves having to undergo destruction and misery. But this would work only if the scale of reconstruction were massive, as, for example, in the post-World War II Marshall Plan.²⁷ As for the assaulted dominated countries, only those elements of their economy that are needed by the imperialist countries are reconstructed.

Keynes once said, "Pyramid-building, earthquakes, even wars may serve to increase wealth" (1964, 129). This is usually theorized as if it were applicable to any country. In reality, it can work only for the imperialist countries (at the expense of Labor in both these countries and the dominated countries) and only after the conditions for a vigorous and profitable restarting of capital accumulation have been created. The theorization of the beneficial (for Capital) effects of war is thus an apology for imperialism. This points to the real danger of a world conflagration of which Bush's "infinite war" is only a pale preview.²⁸

27. During the New Deal, civilian state expenditures grew from US\$10.2 billion in 1929 to US\$17.5 billion in 1939. However, in the same period, gross national product fell from US\$104.4 billion to US\$91.1 billion and unemployment grew from 3.2 to 17.2 percent of the total labor force. It was only in December 1941, when the United States went to war, that the U.S. economy exited the crisis (Giacché 2001, 111–2).

28. To counter the revulsion caused by this as well as other utterances by Keynes, it is often said that the objectivity of science should not be contaminated by moral considerations. This is false. The "objectivity" of Keynesianism as well as of other branches of economics is just a way to foster Capital's interests.

Should Labor Demand Keynesian Policies?

It is obvious that Labor should reject war Keynesianism. However, whether Labor should opt for civilian Keynesianism is a much more debated question. This article has stressed the limits of civilian Keynesianism. This is not to say that Keynesian policies are ineffectual. As anticyclical measures, they can increase employment and/or wages and/or the ARP relative to a situation in which they are lacking and, purely theoretically, they might restore the ARP to its previous level. Also, in the short run, Labor gains more from Capital-financed than from Labor-financed Keynesian policies. These improvements, then, can be used to buy social peace. But the alternative they pose is between the reemergence of economic slowdowns and crises and the pauperization of Labor.²⁹ By circumscribing the choice between these two alternatives, they implicitly, even though powerfully, undermine Labor's ability to develop a program "for change beyond all forms of capitalism" (Wolff 1999, 78). The argument, shared also by most Marxists, that the failure of Keynesian policies is due to their insufficient application is thus wrong.³⁰

It follows that the dilemma of Labor-, Capital-, or credit-financed Keynesian policies is a false one. Labor should have no illusions about these policies' potential for a long-term improvement in their working and living conditions, let alone for radical social change. To hold that "in the long run we are all dead" (i.e., let Labor profit from whatever positive effects Keynesian policies might have here and now, waiting for better times to come) ignores that possible short-term gains are at the same time weakening causes of the economy in the longer run and of Labor's capacity to envisage radical alternatives to capitalism. If it were only for Keynesian policies, better times would never come.³¹

Clearly, to call for a rejection of Keynesian policies, in a political and ideological conjuncture in which these policies seem to be the best the European "Left" can think of, is bound to be an unpopular stance. Yet, if the criticism above is correct, the alternative is neither for nor between one type or another of Keynesian policies.

29. The focus of this article is on Keynesian anticyclical devices and not on the post-World War II long-term redistributive policies resulting in the so-called welfare state. There is ample evidence that the welfare state has been paid for by Labor. In Sweden, for example, over half the housing stock was replaced between 1965 and 1975. However, the funds came from the workers', rather than from the capitalists', pension funds. The high taxes needed to finance the so-called welfare state were applied only to the working class while taxes on profits were among the lowest in the world. To take another example, Shaikh constructs a net social wage as "the difference between the value of total social benefits received and total taxes directly paid" by Labor (2003, 537-8) and finds that, in the post-World War II period, it is slightly negative for the United States but slightly positive for other OECD countries. On a more fundamental plane, it is Labor, and only Labor, that produces value. Thus, even if the share of social benefits (net of taxes) received by Labor were to increase, there would not be a greater transfer of value produced by other classes to Labor but a greater restitution to Labor of value previously produced by the laborers themselves and appropriated by other classes.

30. See, on this point, Wolff (1999).

31. Given that Keynes was a representative of Capital, he might have meant that in the long run "we" (i.e., the capitalists) are all dead. Which, I submit, should be the correct interpretation of his famous dictum.

Rather, Labor should fight for state-induced, Capital-financed public works (and the same holds for the reconversion of the weapons industry or for reforms in general) *not from the perspective of Keynesian policies (as if they were Labor-friendly, effective anticrisis policies) but from the perspective of thoroughly different social (and, to begin with, production) relations: namely, relations based on cooperation, equality, and solidarity*. This is the perspective that secretes not only different forms of consciousness and insights into possible and radically alternative futures, not only radically different forms of political structures with which and through which to conduct the fight, but also concrete policies consonant with the supersession of capitalism.³² Needless to say, this is not only a hugely difficult task, but it is *the most difficult task for Labor, especially in the present conjuncture*. Nevertheless, the development of strategies of resistance as well as long-term alternatives within this perspective is the only way out of barbarism. One of the preconditions for its success is that Labor becomes fully aware of the class nature of Keynesian policies (their being temporary palliatives ultimately functional for the reproduction of capitalism as well as of its crisis-ridden nature), understanding that the real alternative is *either Marx or Keynes*.

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32. For example, Labor should reject an educational and training system aiming at supplying a flexible labor force to the labor market and should try to implement a system in which everybody has equal opportunities to learn to develop all aspects of his/her personality, not at the cost of, but together with, everybody else—that is, from the perspective of cooperation, equality and solidarity.

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