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Article

AQ1 AQ2 AQ3 Full employment as a condition of crisis: Kalecki's Marxian critique of Keynes and the Fabians (1942–45) AQ4

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Between 1942 and 1945, Kalecki emphasised the incompatibility between capitalism and full employment. Rather than stabilising market economies, full employment would have triggered social conflict by providing self-confidence amongst the workers and the lower strata of society. Accordingly, in any program of social transformation, the initial condition that had to be established was (guaranteed) full employment and economic security for workers to alter the game's rules. Like Marx, full employment of resources became a condition of crisis in a capitalist economy. Upon this premise, Kalecki rejected both Keynes's and the Fabians' views, according to which full employment was essentially a technical operation to be achieved by intellectual persuasion and some basic control. The emphasis on persuasion implied an overestimation of the role of economic theory, meant as a method of moulding ideas and opinions of the country leaders. On the other hand, the lack of institutional analysis implied that full employment became a mere tool to guarantee capitalism's correct functioning. Kalecki's stance reflected his different background, both methodological and political.

Key words: Kalecki, Marx, Full employment, Crisis, Capitalism.

JEL classifications: B24, E02, P11

1.Introduction

A considerable amount of literature has dealt with the life and works of Michał Kalecki over the years. Within this context, Kalecki's analysis of full employment in a capitalist economy dated 1942–45 was inescapably presented and discussed in some seminal publications (Sawyer, 1985, 2023; Henley, 1988; Osiatyński, 1990, 1991; López and Assous, 2010AQ6; Bellamy Foster, 2013; Toporowski, 2018, 2023).

The interest towards Kalecki's reflection on full employment declined in the 1950s and 1960s as something approaching full employment was reached in many Western industrialised economies. However, from the 1970s onwards, Kalecki's works became topical again, as evidenced by Altmetric statistics that currently situate Kalecki's (1943) 'Political Aspects of Full Employment' in the top 5% of all research outputs scored.

Nevertheless, two issues connected to Kalecki's original contributions to full employment have progressively disappeared from contemporary debates. First, Kalecki's harsh criticism of capitalist economies and his subsequent plea for a transition to socialism became controversial topics after the collapse of socialist countries, which often implied a *damnatio memoriae* for those intellectuals who played an active role in the Eastern bloc, particularly Poland.[1] Second, Kalecki's trenchant critique of Keynes—which can be traced already in his 1936 review of the *General Theory* (Targetti and Kinda-Haas, 1982)—made some of Kalecki's works non-functional to the subsequent development of the post-Keynesian schools (Lavoie, 2009).

Consequently, little attention has been paid to some crucial and hitherto unexplored questions from Kalecki's articles on full employment and capitalism. Two issues in particular still deserve careful consideration. First, it is necessary to clarify the origins and the sources of inspiration for Kalecki's theory of full employment to grasp its implications in both analytical and policy terms. Second, and strictly related to the previous point, it is inescapable to identify to whom the fierce critique raised by Kalecki in his 1942–45 writings was addressed.

Far from being a mere exercise in the history of economic thought, to answer these questions means to add new insights to three open questions, still relevant today: (i) the relationship between Kaleckian and Marxian theories, (ii) the relationship between Kaleckian and Keynesian theories and (iii) the relationship between Kalecki and the British academic and political milieu.

In this paper, we explore two possible answers to the previous points. We re-read Kalecki's analysis of full employment through a reassessment of Marx's theories of the business cycle contained in his *Theories of the Surplus Value* and *Capital* to highlight some striking similarities and analytical differences notwithstanding. In addition, we compare Kalecki's works both to the Keynesian concept of full employment and to a 1942 political document by the Fabian Society—from the digital archives of the London School of Economics—in order to clarify whether Kalecki's 1942 intervention in the *Labour Discussion Notes* was a reply to these latter.

In doing so, our paper adds at least five original points to the existing literature. Differently from Sawyer (1985), Toporowski (2018) and Halevi and Kriesler (2016) and drawing on textual evidence, we affirm that (i) Kalecki's (1945) 'Full Employment by Stimulating Private Investment?' is an analytical appendix to his 1943 'Political Aspects of Full Employment' and, as such, these works have to be read together. In light of this premise, we conclude that (ii) Marx's analysis of capital accumulation and the law of the falling rate of profit contained in Volume 1 of Capital played an essential role in shaping Kalecki's reflection on full employment, which again represents a relevant discontinuity with the aforementioned published works, which generally tend to circumscribe Marx's influence to Kalecki's business cycle theory and the reproduction schemes in Volume 2. Differently from Toporowski (1986, 2018), we also suggest that (iii) Kalecki's 1942 'The Minimum Essentials for Democratic Planning' was a reply to the Fabian Society's document 'A Word on the Future to British Socialists' and, therefore, that (iv) it proved Kalecki's direct involvement in British politics, more specifically the Labour Party's 1942 conference. Finally, and in light of our broader study, (v) we consider Kalecki's 1942 work as a theory of economic transition (to socialism) and not only a draft of a socialist model (Nuti, 1986).

To this end, in Section 2, we examine Keynes's analysis of full employment in a market economy and Kalecki's critique. In Section 3, we discuss the Fabian view on full employment and Kalecki's reply to their 1942 document. In Section 4, we show that Kalecki's view is essentially Marxian. Finally, we draw some conclusions about Kalecki's relevance, both historically and related to the current situation.

2.Capitalism without Capital? Keynes on full employment and Kalecki's critique

Keynes's concept of full employment is strictly connected with his broader idea of stabilising capitalism. In the exposition of his theory of liquidity preference, Keynes emphasised that it is possible to stabilise investment at a level that secures full employment through fiscal and monetary policy (Keynes, 1936, 1937; Sawyer, 1985; Toporowski, 1999).

Unlike the marginalists, Keynes denied that the level of employment was ultimately determined by the real wage and, therefore, that price flexibility would have always acted as a stabilising mechanism in the labour market, automatically bringing the system back to full employment. Similarly, Keynes rejected that unemployment is primarily voluntary and depends on wage rigidity. As clearly expressed in chapter 20 of the *General Theory*, Keynes assumed that the employment level is directly and uniquely determined by effective demand (Rivot, 2001). However, since pessimistic expectations might have constrained private investment and effective demand, Keynes emphasised that public investment had to fill the demand gap between actual employment and full employment, thus bringing the system back to full employment equilibrium in case of prolonged unemployment. In this sense, Keynes's stance on full employment was primarily focussed on the theoretical and technocratic dimensions of the problem. In a letter to T.S. Elliot (cited in Tcherneva, 2008), he commented that the most relevant aspect in designing policies for full employment was that economists needed to have the intellectual conviction of their feasibility and the cleverness to design them.

In the preface to the *Essays in Persuasion*, Keynes provided further insights on this latter topic. According to him, the 'Economic Problem', that is, the economic struggle between classes and nations that affected capitalist economies in those days, was nothing but 'a transitory and an *unnecessary* muddle' (Keynes, 1963 [1931], p. vii, emphasis in original). The Western World already had the resources and the technique to solve it: the primary aim was to create the organisation to use them, capable of reducing the ‘Economic Problem’ to a position of secondary importance.

The view underlying Keynes’s stance was that, in a capitalist economy, if someone consistently acts on the optimistic hypothesis, this hypothesis will tend to be realised and vice versa. Consequently, a significant part of Keynes’s publications was written in a spirit of persuasion, that is, in an attempt to influence public opinion. In other words, persuasion was strictly related to a conception of economics as a method of moulding ideas and opinions in an exchange with others (Marcuzzo, 2008) since, in the economic field, it is impossible to bring a proposition to a conclusive test; both logical or experimental, what someone thinks ultimately depends on what the scientific community (the *citadel*, in Keynesian terms) thinks.

Along these lines, achieving full employment became the most powerful tool to guarantee the survival of capitalism. It implied the use of good techniques (descending from the *General Theory*) matched with the persuasion of the country leaders.

Kalecki did not share Keynes’s view on these points. As Toporowski (2013) noticed, the disagreement between Kalecki and Keynes was firstly methodological (see also Carabelli and Cedrini, 2017). From this perspective, Kalecki’s role in the Oxford Institute of Statistics (OIS) becomes crucial to understanding such a difference.

From October 1935 to 1944, the research agenda implemented by the OIS diverged from the lines of research of both Cambridge and the Oxford Economic Research Group. Rather than following the Marshallian tradition, the OIS staff assumed a continental scheme of thought, influenced by Marx, the German Historical School and the ‘Kiel School’, thus focussing on business cycles and the constraining role of capitalist institutions over economic dynamics. Thanks to the funding provided by the Rockefeller Foundation, the Institute became an atypical research centre within British academia, almost entirely made of émigré economists originally from Central Europe who escaped the Nazis. On the one hand, its members rejected Marshall’s equilibrium theory for its staticity. On the other hand, they were also sceptical about the Keynesian theory for its insufficient attention to institutions. In short, an ‘uncommon language’ divided the Institute from the rest of British academia (Lampa, 2020).

Such methodological disagreement is well reflected by Kalecki’s use of empirical evidence as a foundation of his theory of full employment under a capitalist system. During his sojourn in Paris dated 1938, Kalecki observed the frustrated attempt of the Popular Front to foster economic growth through deficit spending. After carefully analysing the French statistics, Kalecki observed that two factors determined the inefficacy of the expansionary policies implemented by Leon Blum’s administration. First, capitalists had the power to transfer cost increases to prices, thus determining a higher AQ7GDP (Gross Domestic Product) profit share, which frustrated the multiplier effect of fiscal stimulus. Second, capitalists massively transferred capital abroad, taking advantage of the absence of adequate capital controls, which determined an external imbalance, eventually triggering a devaluation of the domestic currency (Kalecki, 1938). In a similar vein, Kalecki observed that in the USA, the New Deal policies were suddenly interrupted in 1937–38 by the ideological opposition of big businesses to further budget deficits (Kalecki, 1943).[2]

In Kalecki's eyes, the observation of this empirical evidence should have taught a lesson to those who were optimistic about the possibility of solving the 'Economic Problem' through expansionary policies: the multiplier effect of public expenditures cannot be taken for granted since capitalist institutions act as an internal constraint. A reform of the existing institutions becomes the bare minimum to achieve and maintain full employment by expanding aggregate demand under a capitalist order.

To this end, Kalecki discussed in detail a set of reforms to be implemented in capitalist economies, both domestically and internationally, which departed from the Keynesian point of view.

In 1944, a collective book by the OIS dealt with the problem of how to achieve full employment in a capitalist economy. In the book's foreword, the *de facto* director Fritz Adolph Burchardt accentuated the limitations of the British debate around full employment. On the one hand, there was a widespread consensus about implementing active policies in the labour market (well exemplified by the *White Paper on Employment Policy*). On the other hand, the institutional constraint over full employment played by capitalist institutions was overlooked entirely. Burchardt emphasised one central fallacy of the British debate: there are several ways to reach full employment and to each one of them corresponds a 'different distribution of incomes, a different standard of welfare and a different structure of industry and foreign trade' (Burchardt, 1944, p. iii). From this angle, Keynes's analysis of full employment was particularly disappointing:

> Digging holes in the ground and filling them up again will, as Lord Keynes has put it, produce full employment, and so will the pyramiding of armaments or of industrial equipment. (…) But by choosing useful public works, by subsidising mass consumption, or by redistributing incomes, employment can be pushed to the same level and, at the same time, the standard of living of the community as a whole be raised higher than by digging useless holes. (Burchardt, 1944, pp. iii–iv).

Kalecki's chapter delved into this point, analysing the pros and cons in 'Three Ways to Full Employment' (Kalecki, 1944) with particular attention to the interplay between institutions, economic policies and their expected results.

First, Kalecki considered the case of government spending on public investment and consumption subsidies. Such a strategy would have worked, but two potential risks deserved special attention: an excessive level of investment, not matching the productive capacity resulting from the existing equipment and a wage/price spiral triggered by collective bargaining and trade unions. Both cases would have resulted in an inflationary process capable of menacing the maintenance of full employment. In this sense, the government should have carefully checked the amount of public and private investment, curtailing this latter when necessary and subsidising mass consumption instead of investing in excess. In addition, strict rules for collective bargaining had to be introduced to forbid wage increases exceeding the increase in labour productivity.

Second, Kalecki analysed a stimulus limited to private investment—anticipating some of the contents described in the final section of our article—stressing the necessity of a cumulative (and therefore, unsustainable) stimulus to private investment. Although Kalecki did not delve in-depth into the analytical dimension of the problem of maintaining full employment through stimuli to private investment, he emphasises a political obstacle that makes this strategy less effective than government spending: while this latter is always capable of increasing employment in the short term, stimulating private investment may fail even in this respect, for instance in case of pessimistic expectations or political disagreement of the entrepreneurs.

Finally, Kalecki focussed on the redistribution of income from higher to lower classes. In theory, this strategy represents the best choice since the purchasing power of the workingmen would increase without deficit spending and collective bargaining would turn into a political discussion around the income tax rates for the different classes. Both factors stabilise the economy, facilitating an effective control of prices, which remain constant across the years. However, a major obstacle would arise: at constant prices, income redistribution implies that profit margins are squeezed. The political opposition of the capitalists would, therefore, be firm.

Similarly, in 1943, Kalecki and his OIS colleague Ernst Friedrich Schumacher focussed on the constraining role of international institutions on full employment. In doing so, they moved a critique to Keynes's post-war currency plan, which deliberately ignored the asymmetric power relationship embodied by international monetary institutions. In their view, only a radical reform of these institutions would have allowed developing countries to implement and maintain full employment policies. From this angle, the British proposal should have considered a crucial point: in a monetary system characterised by what we may call today a 'currency hierarchy', international reserves are unevenly distributed. Some advanced countries would have had no problem managing their level. However, the same thing did not hold for developing countries, whose international reserves were scarce and generated by exports of raw materials alone. However, implementing full employment policies would imply that developing countries run continuous current account deficits, given their backward productive structure.[3] Without any monetary reform, developed countries would be draining reserves from developing countries. A similar situation would force developing countries into a severe adjustment, resulting in a contraction of international trade, making the path to development even narrower. Therefore, Kalecki and Schumacher proposed a radical modification of the British Plan, suggesting the creation of an International Investment Board where no conditionalities were applied to the loans to developing countries except for an obligation to buy investment and consumption goods from advanced countries in order to keep a consistency between their balance of payments across the years (Kalecki and Schumacher, 1943).

In other words, Kalecki showed his profound disagreement with Keynes's optimistic view, according to which every enduring solution to capitalist economies' problems can only be achieved through an updated theoretical toolbox matched with the persuasion of public opinion.

On the one hand, relying exclusively on persuasion implied an overestimation of the role of economic theory, completely overlooking class dialectics (Locksley, 1980) within society. On the other hand, conceiving full employment as a mere technical tool to guarantee capitalism's correct functioning reflected Keynes's underestimation of the constraining role of capitalist institutions.

Along these lines, Kalecki rejected Keynes's idea of capitalism since it deliberately ignores *Capital* as a social relation of production (a command over means of production). In Keynes's theory, social relations of production are assumed to be *unvaried* throughout the business cycle (except for rentiers, condemned to progressive euthanasia by full employment policies). In change, Kalecki's analysis is focussed on the idea that a consistent institutional framework is a prerequisite to any full employment policy since the changes in the economic ground inescapably trigger tensions on the political ground as a reflection of the new balance of power more favourable to the working class, which converts capitalist institutions into a constraint on the maintenance of full employment.

In Kalecki's view, only the transformation of economic institutions enabled the possibility of a long-term budget deficit necessary to secure full employment. On the other hand, Keynes did not see the need for long-term deficits, recommending deficits during depression and surpluses during booms: a position in line with the UK's White Paper on Employment.

3.Full employment as a condition of crisis: the Fabians Plan (1942) and Kalecki's destructive critique

In the autumn of 1942, Kalecki published a paper ('The Minimum Essentials of Democratic Planning') in *Labour Discussion Notes*, the official journal of the Socialist Clarity Group (SCG). SCG was a small left-wing discussion group formed inside the Labour Party in 1936, whose activity lasted until 1944. More precisely, the SCG was a pressure group that aimed at shaping the Labour Party's agenda in the interwar period in a radical direction, whose leaders eventually became Labour Party MPs in the 1945 general election—Albu, Warbey and Gordon Walker, for example. In doing so, they were fiercely critical of the Fabian Society, which they considered a rival and powerful pressure group supporting a 'left of the centre' platform (Tombs, 1999; Minion, 2000).

In their own words, SCG represented:

> a small number of members of the Labour Party who work together with the specific object expressed in the name we have adopted. That is to say, we are attempting within the limits of our collective abilities to help in the work of clarifying Socialist thinking within the organised Labour Movement. All of us are individual members of the Labour Party, and most of us hold official position as Chairman, Secretary or EC Member. We include in our numbers a former

> Labour candidate, a production engineer, a NCLC Organiser, a railway worker, a University lecturer, *a trained economist*, a former factory inspector, a miner etc. (Albu, 1940, cited in Toporowski, 1986, p. 3 and endnote 2 p. 118, emphasis added)

The reference to the 'trained economist' member of the Group immediately raises a question about Kalecki's affiliation. Based on the previous citation, Toporowski (1986) considers it unlikely that Kalecki was ever a member of the Group since he never joined the Labour Party. However, other evidence (concerning the Group's covert activities with the anti-Nazi émigrés and political context) should be carefully considered before outlining a definitive answer.

One aspect deserves special attention. The SCG had a strict (and clandestine) relationship with the German Leninist group *Neu Beginnen* and its leader Richard Loewenthal, a party leader and an *émigré* in London after the Nazis took power. Loewenthal wrote two anonymous articles in the *Labour Discussion Notes* in 1941 ('The USSR, Its Significance for the West'; 'Why is Germany Aggressive', cited in Tombs, 1999). In the same year, Loewenthal co-founded the Union of German Socialist Organisations in Great Britain, which aimed at influencing the British government's attitude towards Nazi Germany. Loewenthal, in particular, opposed any peace agreement, stressing the necessity of military destruction of Hitler's regime (Tombs, 1999). The SCG echoed the same view. During the war, the Group frequently criticised the party's official policy of supporting the war-time coalition government in London under Winston Churchill (Barberis *et al.*, 2000).

On the other hand, they repeatedly stressed the necessity of military intervention against fascism. Along these lines, they polemised with the Fabian Society on several occasions. For example, Austen Albu harshly criticised Beatrice and Sidney Webb's 1936 '*Is Soviet Communism a New Civilisation?*' for its 'blind formalism' (Tombs, 1999). In addition, SCG disagreed with the Fabians about the UK's future. In their view, a resolute transition to socialism in Great Britain was the first step to achieving a Western European federation of socialist countries. In this sense, they rejected the moderate—and at times isolationist—stances of the other Labour groups (Tombs, 1999).

The proximity between the SCG and the anti-Nazi *émigrés* in the UK is key when evaluating Kalecki's relationship with the SCG. As discussed in the previous section, one should consider that Kalecki settled at the OIS, which became a 'sanctuary' for anti-Nazi economists in the interwar period. The OIS economists' different backgrounds influenced the political stances of its members. Economic cooperation and European integration became two prior issues because of the shock represented by the rise of Nazism. In particular, a reform of the international institutions in the post-war world was considered inescapable in order to moderate trade imbalances, fierce competition and antagonism between countries, which had led to the tragedies of Nazism and WWII in the OIS members' eyes (Lampa, 2020).

This premise is necessary to understand the particular context in which Kalecki's 1942 article was published. During 25–28 May 1942, the Labour Party Conference started a discussion about the post-war policies to be implemented. Party officials committed to publishing an exhaustive report in the following months, which triggered an intense debate between the different labour groups. As a result, three positions emerged: first, a moderate one, which stressed ending the party's participation in the coalition government and rejecting the wartime electoral pact for by-elections. Second, a reformist line supported a set of reforms to introduce controls and regulations in the economic sphere without changing the capitalist features of the British economy. Finally, a revolutionary position stressed the necessity of a workers' revolution (Burns, 1942).

The Fabian Society actively supported the reformist line: already in May 1942, the society published the pamphlet 'A word on the future to British Socialists', whose copies were sent to all the delegates of the Labour conference 'as a basis for discussion whereon future Socialist policy is considered' (Fabian Society, 1942, p. 2). The publication focussed on the economic reforms to be implemented in order to shift to *organised* capitalism through an *economic plan* aimed at ending private monopolies.

The Plan consisted of four steps: first, the bank and credit sectors had to be under direct government control to guarantee easy credit access to the investors that would have acted in Britain's reconstruction. At the same time, public control over credit would have permitted the implementation of an industrial policy by fixing some priority branches where investment had to take place. Second, the agricultural land had to be directly controlled by the government and leased to small businesses to foster productivity. Third, imports and exports had to be administered by the government since international trade had to be organised around 'long-term barter agreements', in which developing countries would have committed to providing food and raw materials to Great Britain in exchange for investment and capital goods. Finally, utilities, fuel distribution and public transportation had to be nationalised.

However, not only did the Plan reject extensive nationalisation for industries, but it also emphasised that even a modest number of nationalisations implies the risk of bureaucratic degeneration. Consequently, nationalised companies had to be organised as public companies rather than Ministry-like unities.

As opposed to nationalisations, 'controls' represented the keyword of the Plan: to regulate the profit system, rather than abolish it, was the only viable solution to the Fabians' eyes, particularly for the lack of incentives and dynamism a fully nationalised system would imply.

From this angle, the Plan recalled a contribution previously published in the *Fabian Quarterly* by David Worswick (Worswick, 1941–42)—the only British economist of the OIS, not coincidentally—and reflected the Fabians' concern about the importance of persuading both the British policymakers and the masses in order to implement a set of progressive economic reforms (Cole, 1943).

Broadly speaking, Worswick sincerely admired Kalecki and considered that his theory contained meaningful advancements. However, he rejected Kalecki's scepticism about the possibility of prolonged full employment under capitalist institutions. On the other hand, Worswick did not share either Kalecki's critical stances towards Keynes and Keynesianism, as he repeatedly proposed a convergence between the two theories (Worswick, 1977, 1999).

This premise is necessary to understand that, rather than an occasional intervention in the SCG journal, Kalecki's article can legitimately be considered a reply to the Fabian Society's pamphlet on behalf of the SCG, which unequivocally indicates his active participation in the debate around the future of the Labour Party[4] in 1942. Such a statement is implicitly reinforced by Osiatyński's brief mention of Kalecki's close contacts with active members of the Labour Party in those days (Osiatyński, 1988, pp. 2–3). However, Kalecki's involvement in UK politics has been largely ignored, probably due to the little to no impact that his 1942 article had on war-time debates, as evidenced by the most prominent literature on this topic (see, for instance, Durbin, 1985).

Since the beginning, Kalecki's anti-Fabian approach (Toporowski, 1986) has been unequivocal:

> The middle, mainly intellectual groups, including some Labour intellectuals, tend to think of planning in the abstract—they generally fail to distinguish clearly between different kinds of planning, serving different objectives, and they regard it as essentially a technical operation, to be achieved by intellectual persuasion and some kind of simple basic control such as State direction of credit-creation and investment. (Kalecki, 1986 [1942], p. 19)

However, he continues:

> …the methods of planning will be determined by the character of the political and social forces by which it will be directed, and that the real choice lies between socialist planning and monopoly-capitalist planning (*Ibidem*).

In Kalecki's eyes, the struggle against monopolies cannot be considered a technical measure to be implemented by a law: monopolists would strike back, determined to sabotage the Plan. Moreover, monopolies have a higher power than a capitalist country's government, representing a state within the state and concentrating their class power in a few hands.

Therefore, to insist on direct or indirect controls (instead of full socialisation) does not mean that a Labour government would face fewer political tensions or obstacles. Rather than on economic and technical considerations, a consistent plan should include both a political and an economic strategy to implement such an epochal change.

From the economic point of view, Kalecki stressed that the four points proposed by the Fabians are insufficient to break capitalists' monopoly power. A broader nationalisation process of the industries and the strategic branches is necessary. In addition, Kalecki was also sceptical about public companies for the potential conflict of interests that would emerge and proposes a Central Planning Body appointed by the Parliament to implement the Plan.

The real question then becomes how to do these radical transformations on the political ground, given the harsh opposition of the capitalists (Nuti, 1986). Unsurprisingly, Kalecki's solution focuses on the masses' self-confidence determined by full employment.

In other words, the war economy represented a historical opportunity for the Labour Party: full employment enabled the total struggle against the capitalists, thus converting the war economy into a unique occasion to match changes from above with pressures from below. Along these lines, Labour is not doomed to the same destiny as the Blum administration:

> …Labour (…) should make itself master of the situation, not by trying to damp down the mood of the workers, as did the leaders of the Popular Front in France, but by directing it against the opponents of democratic planning (Kalecki, 1986 [1942], p. 24)

Taking advantage of the short period in which full employment has generated self-confidence among the workers, Labour must 'strike boldly and strike hard' (Kalecki, 1986 [1942], p. 24)

Unlike the 'collapse view' that had traditionally characterised Marxist works until the early 1930s (e.g. Grossmann, 1929), Kalecki did not believe that the immiseration of the working class creates the working-class consciousness for the transition to socialism. On the contrary, Kalecki thought full employment represents the best opportunity for the Socialists to implement a successful transition to democratic socialism. By triggering an unprecedented social conflict, full employment thus turns into a condition of crisis in any capitalist economy. Immiseration, on the other hand, is inescapably associated with rising nationalism and intolerance, as tragically evidenced by the Polish events that forced Kalecki into exile in 1936.

From this perspective, Kalecki's theory is a more sophisticated version of the conventional position of the Communist International, whose dominant figure (Stalin) stated in 1934 that 'If capitalism could adapt production, not to the acquisition of maximum profits, but to the systematic improvement of the material conditions of the mass of the people…there would be no crisis. But then, also, capitalism would not be capitalism. To abolish crises, capitalism must be abolished' (cited in Dobb, 1955, p. 225). Kalecki's contribution anticipates, not coincidentally, Maurice Dobb's 1950 '*Full Employment and Capitalism*', in which Dobb focussed on the political and institutional obstacles to maintaining full employment under a capitalist system, getting to very pessimistic conclusions (Dobb, 1955; Ellman, 1982).

4.The analysis of full employment in Kalecki: an essentially Marxian view

To discuss Kalecki's analysis of full employment in a capitalist economy inescapably implies recalling his much-debated 1943 '*Political Aspects of Full Employment*'. Before entering into details, however, some preliminary considerations about the context in which the article was conceived are necessary.

As a footnote clarifies, a prior version of the paper had been presented at the 1942 annual lecture of the Marshall Society in Cambridge. Toporowski (2018) stressed the lecture's importance in those days since it represented an official celebration of the Marshallian roots of the Cantabrigian economics department. Therefore, the lecture's object was usually expected to deal with the works of Alfred Marshall. Kalecki was undoubtedly aware of this tradition since his first contact with the department, dated November 1937. Nevertheless, he deliberately ignored Marshall, whom he never mentioned during the lecture. Instead, Kalecki stressed in the paper's first section that a majority of economists believed that a government spending programme might secure full employment once the corresponding productive capacity is provided. Such an idea was correct *on a theoretical plane*.

However, one should also notice that in the following pages, Kalecki first clarified that the whole discussion about capitalism and full employment had not to deal with the theoretical plane. Second, he impolitely compared the principle of effective demand to a trivial 'trick' that the government learns ', increasing employment by its own purchases' (Kalecki, 1943, p. 325) rather than to an epochal discovery for the advancement of the economic science, resulting in a theoretical revolution.

In other words, even considering Kalecki's lack of diplomatic skills and his extreme—at times brutal—honesty (Osiatyński, 1990), the challenging tone of Kalecki's article represents a first element to carefully analyse, especially considering the audience to which it was initially addressed.

Based upon this premise, in Section 2, Kalecki explained why, rather than economic motives, there is a political background in opposition to the full employment doctrine. In his view, such an attitude is not easy to explain in strictly economic terms: a fiscal stimulus expands aggregate demand, resulting in higher output (and employment, too), which benefits not only workers but entrepreneurs as well because the latter's profits rise. In a similar win–win scenario, all incentives should be aligned with the government's agenda.

Nevertheless, according to Kalecki, the creation of employment by government spending has three *unique aspects*. First, once the government increases employment through expansionary fiscal policies, private capitalists lose their political influence over the government and society. Under a laissez-faire system, such influence consists precisely in fixing the level of employment and vetoing any policy or legislation potentially able to alter the entrepreneurs' 'state of confidence' and, therefore, private investment (to which employment is strictly related). Second, public investment implies that a new competitor (i.e. the government) is entering some crucial markets that previously guaranteed extra-profits to private entrepreneurs, such as public transportation, utilities, etc. In addition, subsidising mass consumption in such branches is violently opposed because of a biblical (Genesis, 3: 19) moral principle that shaped capitalist ethics: 'You shall earn your bread in sweat'. Third, and more importantly, the maintenance of full employment would imply that unemployment ceases to act as a disciplinary measure, capable of moderating the requests of the workingmen. In a similar situation, profound social and political changes would occur, menacing business leaders' privileged status. Accordingly, these latter will sacrifice profits for factory discipline and political stability.

Along these lines, Kalecki drew two possible ways of reconciling capitalism and full employment. First, a fascist regime would undoubtedly be a transitory solution: (i) since big businesses are organically allied with the fascists, there would be no competition between public and private investment; (ii) changes in expectations capable of menacing the 'state of confidence' would disappear, since under fascism there is no next government; (iii) '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' (Kalecki, 1943, p. 347).

However, Kalecki looked more interested in discussing the second solution in Section IV, which he considered the most plausible under the circumstances at the time. In his mind, the war economy and mass consciousness implied that unemployment was no longer considered a natural fact and society assumed that something 'must be done in the slump' (Kalecki, 1943, p. 328). Unfortunately, two problems arose: first, in this new consensus, slumps must be counteracted by stimulating *private* investment only; second, such intervention was tolerated exclusively in the event of a slump. As a result, a *political business cycle* would characterise the advanced economies in the following years: government intervention would have been tolerated in the slumps to prevent mass unemployment. Nevertheless, as soon as full employment was attained, entrepreneurs would have acted resolutely against maintaining full employment, determining a swing in the business cycle for the aforementioned political reasons (Snowdon, 2002).

Since he considered such a scenario the most considerable risk for market economies in the post-war years from a progressive point of view, Kalecki insisted on the infeasibility of a government anti-cyclical intervention strictly circumscribed to monetary stimuli, incentives and de-taxation of private investment. In his 1945 'Full Employment by Stimulating Private Investment?' Kalecki provided a theoretical analysis to show that a full employment policy focussed exclusively on private investment was not viable in strictly economic terms. However, as Kalecki clarified, since the article dealt only with 'the economics of full employment', an exhaustive analysis would have implied integrating it with 'the political problems involved in achieving full employment' (Kalecki, 1945, p. 92).

In other words, Kalecki's *overture* suggests that his 1945 article is complementary to his previous work on the 'Political Aspects of Full Employment': an analytical appendix to 1943's Section IV, one might conclude. Quite surprisingly, a careful review of the existing literature shows that no published work has ever provided a similar complementary analysis. More precisely, a simple search in Google Scholar shows that Political Aspects of Full Employment has been cited 2984 times. However, if we search 'Political Aspects of Full Employment' + 'Full Employment by Stimulating Private Investment?' we find only 43 results.

Nevertheless, we double-checked each one of these 43 results. In that case, we realise that only 14 publications (both articles or book chapters) included Kalecki's (1943, 1945) articles in their references, which amount to 0.47% of the total citations. Finally, although Sawyer (Chapter 7, 1985 and 2023) combines a discussion of Kalecki's (1943, 1944, 1945) works, by reading the 14 publications mentioned above, we see that no published work has explicitly maintained the analytical complementarity of the two articles.

Filling this gap becomes inescapable at this stage.

Kalecki's paper aims to show that stimulating private investment can be sufficient to achieve full employment but not to maintain it unless the measures are applied cumulatively, which 'means that the rate of interest must continuously fall; the income tax must be continuously reduced; or the subsidies to investment must continuously rise' (Kalecki, 1945, p.83).

To this end, Kalecki introduced a distinction between two levels of private investment: I_f (the level of gross private investment—i.e. net investment + depreciation—which creates effective demand adequate to maintain full employment) and I_c (the level of gross private investment that expands the stock of capital *pari passu* with full employment output, which increases in the long run as a result of the rising population and technical progress). Kalecki did not provide a detailed analysis of the relationship between I_f and I_c and he does not delve into the theoretical dimension of the problem. However, he observed that, according to both US and UK official statistics, I_f, the gross private investment necessary to maintain full employment usually is 2.5 times as much as depreciation. On the other hand—since total labour power in the USA increased +1.5% annually, the productivity of labour +2.5%, net investment corresponding to I_c was 4% of the stock of fixed and working capital and depreciation was 4% of the total value of fixed and working capital—Kalecki estimated that I_c is equal to or lower than 8% of capital, that is two times depreciation (Kalecki, 1945, pp. 84–85). Therefore, drawing on such empirical evidence, he assumed that $I_f > I_c$.

Given this premise, Kalecki considered two cases. The first ignores technical progress, meaning productive capacity expands proportionately to capital stock. Therefore, the expansion of I_c results in a coordinated expansion of productive capacity *pari passu* with full employment output: the maintenance of full employment implies the utilisation of equipment constant in time.

In such a scenario, Kalecki assumed that the interest rate decreases sharply to achieve full employment: I_f and I_c increase *pari passu* until a new level corresponding to full employment, which increases the gross real GDP. As time goes by, gross real GDP increases because of the increase in population and, therefore, productivity. However, in the new situation, I_f expands more than I_c: while population and productivity grow uniformly, the increase in per capita GDP triggers an increase in saving that modifies the equality between saving and I_f.

Since I_f *and* I_c do not grow *pari passu*, the capital accumulation is no longer sufficient to match the increased full employment output unless we suppose a sharp profit reduction. In other words, the initial monetary stimulus is insufficient to maintain full employment. As a cumulative reduction of the interest rate would not be sustainable in the mid-term, Kalecki concluded that public investment and subsidies to mass consumption become necessary to maintain full employment: the resulting increase in gross total investment would imply an increase of I_c.

The second case considers technical progress, which, in Kalecki's mind, involves a faster rise of capital than productive capacity. In this case, too, he assumes that the interest rate decreases sharply to achieve full employment; however, a coordinated expansion of I_f and I_c now implies an increase in equipment utilisation, resulting in a shift to profit. The increased profit acts as a stimulus to the further utilisation of productive capacity until we get to the limit and equipment becomes short compared to labour: unemployment rises and the product falls, accordingly. In other words, a crisis is triggered by the deficiencies of the supply side of production, not by the insufficient level of the aggregate demand: an expansionary fiscal stimulus thus becomes ineffective in maintaining full employment and the means of production have to be (at least partly) socialised in order to achieve a rapid expansion of productive capacity.

Along these lines, Kalecki's conclusion is an unequivocal endorsement of Marxian theory:

> The Government spending policy (…) permits the overcoming of one contradiction in the capitalist system: that of insufficient effective demand. But if technical progress causes productive capacity to increase more slowly than the accumulation of capital, i.e. if the capital intensity of production increases, there comes into the picture another contradiction of the capitalist system formulated by Marx in his law of the falling rate of profit. It is this second contradiction which—even though the problem of effective demand has been solved—makes it still necessary to grant cumulative subsidies to private enterprise in order to induce it to expand its productive capacity to keep pace with the increase in population and productivity of labour. (Kalecki, 1945, p. 91)

Therefore, we get to a crucial result by analysing Kalecki's (1943, 1945) articles as complementary works dealing with the *political business cycle*. Kalecki identified two dimensions of the problem: political and economic. A careful review of this latter unambiguously shows the pivotal role of Marxian theory as a source of inspiration.

In particular, the second case analysed by Kalecki in his 1945 article reveals more striking similarities. When discussing full employment and technical progress, Kalecki mimicked the logic of Karl Marx as originally formulated in the first volume of Capital. Introducing the problem of the accumulation of capital, Marx made a crucial assumption:

> The first condition of accumulation is that the capitalist must have contrived to sell his commodities and to reconvert into capital the greater part of the money so received. In the following pages, we shall assume that capital circulates in its normal way (Marx, 1977 [1867], Part VII, p. 400)

In other words, Marx considered a case in which aggregate demand cannot be the driver of the crisis, which means that he is studying capital accumulation once resources are fully employed. However, even if Marx's reasoning runs in terms of values, he drew a conclusion that resembles

Kalecki's: the unbalanced accumulation of capital affects capitalism's capability of maintaining full employment. Therefore, unemployment rises due to the deficiencies of the supply side of production. A cycle characterised by the expansion/contraction of the industrial reserve army (i.e. the mass of unemployed workers) permits the sub-optimal functioning of the system unless investment is socialised.

The crucial role of Marx's law of the falling rate of profit in Kalecki's (1945) article has mainly been ignored, probably because of the revisionism of the first Kaleckians, who gave a different lead to policymakers than Kalecki's recommendations on the potential efficacy of their spending powers (Trigg, 1994).[5]

However, in previous works, Kalecki had already proved to be aware of this special feature of Marx's analysis, noticing that Marx was not interested in the problem of what happens when investment is too small to ensure equilibrium (Osiatyński, 1990, p. 4).

In this sense, our analysis of Kalecki's articles suggests that volume 1 of Marx's *Capital* played an influence on him in the 1943–45 period, which represents an update to the previous literature focussed on the analogies between Kalecki's trade cycle and the reproduction scheme contained in *Capital*'s volume 2 (Robinson, 1974; Toporowski, 1999).

The analogy with Marx's works might be developed further, extending it to the first case analysed by Kalecki in the 1945 paper. In his *Theories of the Surplus Value*, Marx analysed the case of a cyclical fluctuation driven by insufficient demand, which recalls Kalecki's discussion on the maintenance of full employment in the absence of technical progress.

Similarly to Kalecki, Marx noticed that an expansion of production does not necessarily generate an expansion of demand since the effect of the expanded product can easily be an increase in savings. The market then absorbs the excess supply through a drop in the prices, which affects producers and the accumulation of capital, pushing the economy away from the full employment of resources:

> At a given moment, the supply of all commodities can be greater than the demand for all commodities *since the demand for the general commodity, money, exchange-value, is greater than the demand for all particular commodities*; in other words, the motive to turn the commodity into money, to realise its exchange-value, prevails over the motive to transform the commodity again into use-value (…) The market can absorb a larger volume of commodities at falling prices, at prices which have fallen below their cost-prices, than it could absorb at their former prices. The excess of commodities is always relative; in other words, it is an excess at particular prices. The prices at which the commodities are then absorbed are ruinous for the producer or merchant (Marx, 1968 [1863], Ch. 17, p. 505, emphasis in original)

In the absence of further textual evidence, however, this latter Marxian influence remains a conjecture, although fascinating and plausible.

Of course, highlighting that the economic dimension of Kalecki's concept of full employment resembles Marxian theory does not mean that the two theories have no differences.

It is, in particular, in the 'political' (i.e. institutional) sphere that Kalecki departs from Marx. Unlike the latter, Kalecki rejected the 'profit squeeze argument', that is, the Marxian idea that any wage increase is detrimental to profits. Instead, as previously discussed, Kalecki emphasised that high wages resulting from full employment are associated with increasing profits. From this perspective, he agreed with Marx's idea that capitalist institutions represent an obstacle to economic development. However, Kalecki was also convinced that such an institutional constraint needs to be radically re-defined (Halevi and Kriesler, 2016; Kriesler and Halevi, 2016).

In this sense, one might conclude that Kalecki's theory of the political business cycle is an update of the Marxian theory of the business cycle, capable of grasping the institutional innovations that took place in the advanced economies during the first half of the twentieth century, such as trade unionism, collective bargaining and the war economy. Nevertheless, on the other hand, such a critical attitude is paradoxically very Marxian if one keeps in mind that in Marx's methodological reflection, a *scientific* theory is a theory capable of correctly *historicising* capitalism (Marx, 1977 [1859]; Amariglio, 1987).

5.Concluding remarks

This article provides new insights into Kalecki's analysis of full employment, dated 1942–45.

By an original re-reading of Kalecki's (1943) 'Political Aspects of Full Employment' together with 1945 'Full Employment by Stimulating Private Investment?' we identified two complementary dimensions of Kalecki's works, political and economic. A careful review of this latter highlighted the pivotal role of Marxian theory as a source of inspiration. When discussing full employment and technical progress, Kalecki mimicked the logic of Karl Marx as initially formulated in the first volume of Capital: aggregate demand cannot be the driver of the crisis; it is the unbalanced accumulation of capital which affects capitalism's capability of maintaining full employment. Therefore, unemployment rises because of the deficiencies of the supply side of production. A cycle characterised by the expansion/contraction of the industrial reserve army permits the sub-optimal functioning of the system unless investment is socialised.

Our result is an update to the previous literature focussed on the analogies between Kalecki's trade cycle and the reproduction scheme in Capital's volume 2.

Drawing upon this premise, we have discussed the disagreement between Kalecki and Keynes on the role of full employment in a capitalist society. We argued that a difference in method leads Kalecki to an opposite conclusion than Keynes's: no enduring solution to the problems of capitalist economies can be achieved through an updated theoretical toolbox matched with the persuasion of public opinion. Kalecki rejected Keynes's idea of capitalism since it accordingly ignores Capital as a social relation of production.

Finally, we have discussed an unexplored issue, strictly related to Kalecki's 1942 article on the 'Minimum Essentials of Economic Planning'. We provided an original interpretation of this work, suggesting that Kalecki's article is a reply to a Fabian Society's pamphlet on behalf of the SCG, which indicates Kalecki's active participation in the debate around the future of the Labour Party in 1942. In addition, we have emphasised that, by triggering an unprecedented social conflict, full employment represents a condition of a crisis of any capitalist economy and a prerequisite to a transition to Socialism in Kalecki's eyes.

It is undoubtedly challenging to reach definitive answers when discussing a complicated author like Kalecki. This notwithstanding, we are persuaded that the contemporary uses of Kaleckian theory implied a legitimate reconsideration of his original analysis, which at times degenerated into a cherry-picking selection of his works. Kalecki's 1942–45 works still conserve a relevant explanatory power and represent a blueprint for reconsidering contemporary heterodox schools.

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1

See, for instance, the case of the Oskar Lange Academy of Economics in Wroclaw, which was formally renamed to Wroclaw University of Economics on 18 March 2008 by an act of the Polish Parliament, within the *lustracija* decommunisation campaign.

2

Kalecki's stance recalls Oskar Lange's (1939) empirical analysis of the American economy during the New Deal, which led to similar and pessimistic conclusions.

3

The emphasis on the economic structure does not mean that Kalecki referred to (or provided) any specific 'structural change framework'. In his pessimistic view, underdeveloped countries cannot develop under a capitalist system unless a radical transformation of their institutions is implemented (Lampa, 2017).

4

Several textual pieces of evidence indicate that Kalecki's paper is explicitly addressed to the Labour Party leaders: 'In drawing up Labour propaganda and, still more, a plan of action for a Labour government, it is therefore important to keep clearly in mind…' (p. 20); 'Labour must have no illusions about…' (p. 20); 'Here then must be Labour's main objective after it has gained political power…' (p. 21); 'Labour should not be afraid of the consequences of the social revolution…' (p. 24) etc. (Kalecki, 1986 [1972]).

5

In the early 1940s, Kalecki had monopoly capitalism in mind but not necessarily the version put forward by Paul A. Baran and Paul Sweezy (1966), despite Baran and Sweezy's reiterated references to Kalecki's works.

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