

On the death of financialised capitalism: Steve Keen and *Monthly Review*

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There's a passage in *Lila*, Robert Pirsig's follow-up to *Zen and the Art of Motorcycle Maintenance*, where the author talks about how, once your mind becomes trained to notice something, you can suddenly spot it everywhere. As soon as you buy a car, for instance, 'you may be amazed at how the highways fill up with other people driving the same model. Because you now value this model more you now see more of it' (1992, 391).

I was reminded of this recently after first reading about the Australian economics professor, Steve Keen. Until then, the only Steve Keen I was aware of was the benighted former manager of Blackburn Rovers. I came across the other Steve Keen when reading about the role of the banks in destabilising the economy. Suddenly, I was seeing his name everywhere. At a Q&A at the LSE in April 2012, the host, *Newsnight* economics editor Paul Mason, remarked that the Steve Keen fan club seemed to have turned out in force. As the event was broadcast on Radio 4, it's a fair bet the fan club will have gained even more members in the UK.

Keen's main claim to fame rests on having been one of the handful of economists Who Saw It Coming – 'It' being the financial crash of 2008. This isn't merely self-promotion on his part; in 2009 an authoritative study found that Keen was one of only a dozen professional economists who had accurately predicted the crash. He also topped a poll of readers of the journal *Real-World Economics Review* to name the economist who had given clearest warning of the crash, and whose work would be most valuable in preventing another (*Real-World Economics Review*, 2010).

Worryingly, Keen is now predicting that Britain is due, not just for a prolonged double-dip recession, but for another sharp crash, comparable in magnitude to what happened in 2008. As he put it in his interview with Paul Mason: 'The level of debt England's taken on is breathtaking. I thought America was bad when it had a total private debt ratio of 300 per cent of GDP. Even the Treasury's figures here have you at 450 per cent of GDP.' All of which leads him to conclude that the UK is heading for another credit crunch 'that probably will be of the same scale as Lehman Brothers.' It's worth seeking out the Radio 4 podcast just to hear the note of dismayed incredulity in Mason's voice when he responds: 'Again? In Britain?' (BBC, 2012).

But however much we might not like to hear what he has to say, Steve Keen is clearly a man we ought all to be listening to extremely carefully. Earlier this year Keen's reputation was boosted further by a spat with Paul Krugman, nobel laureate and doyen of the US liberal intelligentsia, in which the Australian was judged by many to come out on top. In an April 2012 blog post for the *New York Times*, Krugman attacked Keen's understanding of macro-economic models, before declaring 'I'm done with this conversation' (Krugman, 2012). To many observers – not least those of Krugman's own readers who commented on

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his blog – it was Krugman's understanding which was at fault. Meanwhile, the way in which Krugman slunk out of the exchange was considered to give Keen a victory.

From *Debunking Economics*...

First published in 2001, Keen's *Debunking Economics* was republished in 2011, in an extensively revised edition that comments in detail on the crash and what to do in response. At its heart is an iconoclastic attack on the entire foundations of neo-classical economics. What makes this so powerful is the way Keen repeatedly goes back to the sources of orthodox theories, to lay bare the absurd assumptions underlying them and the way in which their authors frequently disown the uses to which they are put.

Let's take as an example a centrepiece of neo-classical economics, the 'law of demand'. This purports to demonstrate that, deterministically, there is an inverse relationship between price and demand across the economy – that when the price of a good goes down, the social demand for that good goes up, and vice versa. Keen shows how a handful of neo-classical economists, when making the attempt to prove this theory formally, actually found that it does not stack up: because the prices of goods are affected by the demand for them, because people's tastes and spending patterns vary with their income, and because changes in demand for goods affect people's income in different ways, a rise or fall in the price of a good cannot be said to lead to an automatic reduction or increase in demand for it across the economy. But, Keen shows, these economists have all sought to bury this finding, performing intellectual contortions in the attempt to patch up the theory. In a move Keen shows to be endemic among neo-classical economists, these theorists first identified certain conditions under which the law would hold, then assumed that these actually applied in the real world. But just consider those conditions: in effect, the law of demand only holds in an economy in which there is just one commodity and one consumer! (Keen, 2011, 55)

The absurdities relating to this theory do not end there. One of the impulses behind attempts to establish theoretical foundations for this law was the desire to prove that a free market economy necessarily maximises social welfare. That is, the law of demand is based on the idea of the individual as a reliably utility-maximising economic agent, scaled up to the level of society as a whole. The basic idea is that if an individual can be said to always make choices about how to spend their money which maximises their welfare, then so will the total consumption choices in society generate the maximum possible welfare for all individuals in aggregate.

It is here that Keen's presentation of intellectual contortions is most spectacular. Not least, readers are treated to an extraordinary argument published in 1956 by Paul Samuelson, one of the most influential economists of the second half of the twentieth century. Having conceded that treating the economy as one single consumer was 'not very realistic', Samuelson first reasoned that, 'Since blood is thicker than water', families could be regarded as individual consumers, before making the truly astonishing leap – that the same argument could apply to the whole of society, if it acted as one big family, and continually reallocated income between its members so their consumption preferences always maximised total welfare. As Keen comments: '*Did he even live in the United States?*' (Keen, 2011, 62)

And it gets better. In his *Microeconomic Theory*, the leading textbook for postgraduate economics programmes for the past 20 years, Andreu Mas-Colell concedes there remains a stubborn problem with attempts to prove that the consumption choices in a market economy necessarily maximise social welfare. In order to translate the welfare implications of consumption choices for different individuals into a common, interchangeable measure

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of social welfare (and thus help to collapse society into a single consumer), one must use an index which represents social attitudes towards the benefit individuals can gain from the different baskets of commodities they can purchase. The problem is that the actual distribution of wealth in society affects these attitudes, and there is no way of guaranteeing that this would correspond to a system which would maximise social welfare. In order to fix this problem, Mas-Colell assumes the existence of a benevolent dictator, blessed with perfect knowledge, who, immediately prior to the birth of the market system, assigns to everyone the optimum distribution of wealth (Keen, 2011, 59). And this is at the heart of the economics on which neo-liberalism is based!

... to debunking neo-liberalism

These are not just abstruse theoretical matters, of interest only to point-scoring academics. As Keynes observed of Say's Law (the belief that production automatically creates demand, thus making unemployment impossible in a perfect market economy), theories which state that unregulated capitalism leads to the best of all possible worlds tend to be propagated by those who stand to do very nicely by them. In deploying such ideas, they assert their justification of the distribution of wealth and power which arises from them.

To put it another way, neo-liberalism as a political project is supported by the tenets of neo-classical economics – which so happen, as Keen characterises it, to state in sum: 'You can't beat the market'. Keen, by vigorously exposing the fatal flaws within these underlying theories, cuts neo-liberalism off at the knees. In fact, he does a far more effective job of providing an intellectual opposition to policies which undermine the state and increase inequality than the vast majority of explicitly left-wing thinkers and politicians today.

A perfect example is what Keen does to the neo-classical theory of the relationship between business costs, wages, and unemployment. As Keen puts it, this is widely understood to dictate two things. First, that any move by the state to increase wages or reduce unemployment will backfire, with one just creating more unemployment and the other creating more inflation. Second, that whatever the levels of wages and unemployment generated by the market, these are natural, reflecting the intrinsic productivity of workers on the one hand, and the amount they want to forego their leisure time in return for wages on the other.

Drawing on the work of other non-orthodox economists, notably Piero Sraffa, Keen demonstrates that the theoretical underpinnings of these beliefs are hooey (Keen, 2011, 119). In reality, he argues, output is determined by the dynamic interactions of firms competing with one another for sales. Wages, meanwhile, are determined not just by workers' contributions to production but by their relative bargaining power with employers. On this point, Keen provides a strong theoretical defence of the essential role of trade unions.

Explaining the crash – and what not to do about it

Nowhere is Keen's iconoclastic take on orthodox theories needed more than his analysis of what lay behind the financial crash of 2008, and of how to recover from it. It is one of the most striking features of this ongoing crisis that, after a brief moment when it seemed there might now be room for alternative policies, neo-liberalism reasserted itself to become more entrenched than ever. With breathtaking audacity, throughout the Western world the banks and big business pocketed trillions in bailouts, then demanded the state slash public spending to bring down the debt incurred on their account.

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In country after country, the mainstream left has bowed before this orthodoxy, no matter how distasteful, because this is what economic theory has said is the only route back to economic recovery. Thus in Britain, Labour fought the 2010 general election primarily on a promise of a descent into austerity that would be less steep than that offered by the Conservatives. While Labour in opposition has pressed the case for more stimulus spending, it is fair to say it essentially still remains trapped within the terms of orthodox economic theory. This, more than anything, is why the Labour leadership and those advising them should today be pouring over the writings of Steve Keen.

Keen's analysis of what led to the crash, drawing on the pioneering theory of the heterodox economist Hyman Minsky, begins like this. The cause lies in the credit system, in which (contrary to orthodox theory) banks in reality loan money to people in advance of receiving the deposits required to cover even a fraction of those loans. The essential point is this: they effectively create money out of thin air. It is this which provides credit with the potential to grow out of all proportion to the workings of the real economy.

As Minsky then modelled it, levels of debt and economic growth go in cycles. In an initial stage, banks are conservative about how much they lend, with businesses cautious about how much debt they take on. In these circumstances, injections of credit are likely to be very successful, helping to stimulate pent-up demand and unleash profitable forces of production; those who borrow enjoy an advantage over their rivals, and the economy as a whole grows. Soon a new attitude to credit takes over: businesses learn the lesson that it pays to lever, banks that it pays to be more liberal with their loanbook.

But before long, optimism about the growth to be unleashed from taking on debt turns into over-exuberance. The seeds of a fatal crash are sown as soon as the motor of credit shifts from financing the expansion of production and consumption to providing people with the money to speculate on the value of assets. What makes this fatal is its self-reinforcing nature. The value of assets goes up because of the borrowed money used to buy them, enabling people to borrow more money against them to buy more assets which raises their value still further, and so on. With borrowed money secured against borrowed money, loans appear solid only so long as everyone keeps borrowing. The whole economy becomes a giant Ponzi scheme – a castle in the air, in which the supply of credit must continually grow or the whole thing will come crashing down. Which is precisely what does happen, the moment the realisation hits that the economy as a whole is over-levered, that growth in credit has exceeded growth in the real economy to an impossible degree, and that debtors as a whole are never going to be able to repay the debt they've taken out. At this point banks and borrowers lose confidence, loans are called in, debtors default, and the economy, which had become doubly dependent on credit, first to pay for things and second to finance its own repayment, crashes.

Keen's analysis of what has followed the crash experienced in 2008 draws not just on Minsky but on another economist neglected by the mainstream, Irving Fisher. Best remembered for his misplaced optimism on the eve of the 1929 Wall Street Crash, Fisher developed a very different analysis of the functioning of the capitalist system during the Great Depression. His theory of the debt-deflation cycle is in many ways the counterpart to Keynes's much better known 'paradox of thrift'. Keynes's theory said that, if in a recession all tighten their belts, then the economy as a whole will shrink, and thus all will actually become poorer; this is the theoretical foundation for the policy of state stimulus spending during a downturn. The paradox Fisher pointed to, meanwhile, was this: if everyone tries to reduce their debts by selling assets, they will drive down the value of those assets, leading to a price deflation in which their debt actually grows relative to their declining income. In effect, the faster they try to reduce their debts, the larger and more impossible to pay off

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they become. If the policy prescription Keynes's analysis pointed to was counter-cyclical state spending, to make up for the shortfall in private demand, then Fisher's points to the use of measures to increase inflation, as a way of shrinking debt relative to income.

Keen's main original contribution to this thinking has been to use some of these theoretical building blocks (as well as some from Keynes) to construct a mathematical model of the economy. Using this model Keen predicted in advance a crash on the scale of 2008, and has since simulated the effects of alternative policies in helping the economy recover from it. It has also supported his criticisms of the main policy responses that have held sway internationally in the last couple of years.

Certain common approaches have dominated the orthodox response to the aftermath of the crash, once the initial crisis was stabilised. At one pole there has been the approach of funnelling enormous sums of money (in the process we have come to know as 'quantitative easing') into the banks to build up their balance sheets. The aim behind it has been to provide the banks with greater security, enabling them to make more loans to business, in turn increasing the flow of demand throughout the economy once again.

At the other pole there is the approach of applying stringent cuts to public spending, including restraining welfare benefits, with the aim of shrinking public sector debt. An auxiliary aim has been to help promote the growth of the private sector. This is based on the theory that the public sector can 'crowd out' private sector investment and undermine its competitiveness. For example, the public sector is said to pay workers in regional markets too well, distorting local pay rates, meaning private firms are unable to afford to hire more workers (Wintour, 2012).

Keen takes all these measures to pieces. Regarding quantitative easing (or QE), he argues this was never destined to work effectively, since it was based on a faulty understanding of how banks work. QE relies on the orthodox theory of how banks lend money: i.e. first they take in money as deposits, then they lend a multiple of this money out again. The theory behind QE, then, is simple: providing the banks with more money they can hold as reserves means they will have more money to lend. But, Keen argues, banks do not act like this; when they loan money they create it out of thin air, and only subsequently look for funds from the central bank to supplement their reserves. In these circumstances, transferring money to the banks does little to increase the supply of credit in the economy – whose essential constraint is actually the expectations of future economic growth on the parts of both lenders and borrowers. As for cutting state spending and advocating the lowering of wages, Keen argues that such policies actually exacerbate the debt-deflation cycle. By driving down the general price level, they actually increase the debt burden on society.

In contrast to these policies, Keen suggests using measures to increase incomes. He argues that what is really needed is not lower wages, but lower debt levels, and this can itself be achieved by increasing wages. As for the potential criticism that simply increasing wages would create inflation, he says this is just the point: 'A boost to money wages during a depression can cause inflation far more efficiently than "printing money", and this inflation can reduce the real debt burden' (Keen, 2011, 138). The implication of his argument, then, is not that QE was entirely misguided, but that it was aimed at the wrong recipients. The Bank of England should have given those billions of pounds directly to firms and consumers, thereby boosting economic activity and raising inflation, the latter necessary to reduce the overhanging burden of real debt.

A further point to make in passing here concerns the macro-economic role of state benefits in a recession. The neo-liberal argument is that benefit payments must be restrained in a recession: otherwise, with more claimants, the bill will go through the roof at

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the very time the state has less tax revenue to spend. Keen turns this on its head, by analysing benefit payments as a 'subsidy to capitalists'. As he puts it: 'though workers receive unemployment benefits, the unemployed spend everything they get on consumption, so that corporations are the ultimate recipients of government welfare' (Keen, 2011, 334-5). Though this insight is itself far from original – it's part and parcel of classic Keynesian counter-cyclical state spending – it's striking to see it written down, since this is an argument almost never heard in contemporary political debate. Perhaps Keen's credentials in economic theory might give more social democratic politicians the confidence to make this argument in public.

Back to the real economy

Keen's overall message on recovering from the Great Recession can be summed up like this. First, we need to shrink the value of debt, and the key to this is increasing incomes and stimulating a rise in inflation. Second, we need to get back to the real economy as the engine of wealth-creation, rather than depending on debt-financed speculation in assets. What we cannot do, he says, is to hope we can somehow set the clock back to 2007 and pick up where we left off. Such dependence on debt is unsustainable.

It is important to grasp what Keen is saying here, because it is the foundation of his argument that a genuine economic recovery is literally impossible under current policies, given the economic fundamentals that prevail (in Britain especially). So long as the level of private debt overshadows the real economy, as it does in the UK, and where growth in credit is faltering, as it has since 2008, the economy is likely to continue along a bumpy road of recessions alternating with short-lived and meagre recoveries.

This is because of the pivotal role in whether the economy is growing or contracting that is played, not by the level of debt, but by the *change* in the level of debt. That is, aggregate demand is made up of income from the real economy plus the flow of money in the form of new credit (which increases the stock of total debt). In order for the economy to grow continuously, total debt must not only be growing but constantly *accelerating* (thus injecting a continuously growing flow of credit into the economy). As Keen observes, it is impossible for this to accelerate forever; at some point the rate of growth in debt must become unsustainable, hence cyclical busts are an inevitable feature of capitalism (Keen, 2011, 346).

Drawing on the work of the economists Biggs, Mayer and Pick, Keen points out a counter-intuitive implication from this analysis: a slowdown in the repayment of debt can have the same effect on economic growth, if temporary, as an injection of credit. And this is precisely what Keen says was behind the stuttering recovery in countries such as the UK in late 2010, before the slide back into a double-dip recession (Keen, 2011, 343). The essential point is this: if the level of debt is too big relative to the real economy, then the economy will not be getting back to a path of continuous growth any time soon. Where the economy experiences mini-recoveries, associated with periodic easings of the rate of debt-deleveraging, it will be like a plane being buffeted by upward currents of air on its general downward trajectory. As Keen puts it: 'the economy will have a tendency toward recessions rather than booms until the debt-to-GDP ratio stabilises at some future date' (Keen, 2011, 348).

Keen's prescription is that we get back to the real economy. Principally, he proposes doing this by imposing constraints on credit-driven speculation in assets. One of the prime measures he suggests is the mandated creation of what he calls jubilee shares. The idea would be that companies would still issue shares, and that these could still be traded on

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the stock exchange – but only for a maximum period, say seven years. The theory behind this would be that this would actually correspond to the original purpose of issuing shares: helping a company raise cash to invest in its enterprise, and receiving a share in any resulting profits. As companies typically only make investments if they project they can make a payback within a relatively short period, it is reasonable to impose a time limit on the life of a share: doing this would tie the act of buying a share firmly to the company's act of investment in its business. It would also prevent the speculative trading of shares, certainly with borrowed money: why would anyone incur debt to acquire something that would be rendered valueless within a set period?

To Keen, such regulation could eliminate the unstable financial activity which produces the bubble economy, while not adversely affecting investment in the real economy. Indeed, he thinks it could help restore dynamism to Western economies, particularly the US and Britain. Looking back to before these economies were taken over by the financial sector, he argues there was more genuine innovation and entrepreneurship because engineers were the driving force behind investment decisions. His argument here echoes that made by the likes of Paul Woolley, a former investment banker and now head of a centre for the study of capital market dysfunctionality at the LSE. Woolley argues that the City has sucked in large numbers of the most talented people in the country, and harnessed most to activities which do not produce much, if any, social value, or even sustainably generate wealth. A swingeing reduction in the size of the financial sector would, he believes, free up this talent to engage in other things, and thereby give a boost to the economy and society.

Here we might observe a certain resemblance between Keen and Keynes. Keynes provided fundamental criticisms of the capitalist system, and proposed policy solutions to economic crisis which were anathema to free market economists. But as much as some left-wingers may have tried to read into Keynes a more radical argument (based, for instance, on his late remarks on the need for a 'socialisation of investment'), he was focused on getting the economy back on track, the state intervening to save capitalism from its self-generated crises and then pulling back again.

Keen is just the same. While his attack on neo-classical economics is at the same time devastating to neo-liberal politics, he does not present fundamental criticisms of capitalism. He argues that the reliance on the financial sector to drive the economy is unsustainable, but not that the continued pursuit of growth per se is unsustainable; indeed there is nothing in his book about fundamental limits to growth. In sum, like Keynes, he is acting as capitalism's physician. He wants us to prick the bubble of debt-financed speculation, and restore the health of the real economy, that it may once more function as the driver of growth.

The *Monthly Review* critique

It is at this point that Keen's analysis breaks down. There is another school of thought which argues that such a call for a return to growth in the real economy is forlorn. This is the school associated with the Marxist journal *Monthly Review*, founded in 1949 and edited for many years by one of the foremost Marxist economists of the twentieth century, Paul Sweezy. The distance between this and Keen's work can be illustrated by Sweezy's views on both Keynes and Minsky. On Keynes, while extolling the virtues of his work, Sweezy remarked that he was fatally circumscribed by his unspoken premise that 'capitalism is the only possible form of civilised society.' Minsky he praised for his analysis of the cyclical nature of financial crisis, but criticised for failing to address the reasons *why* the economy was becoming increasingly financialised (1953, 2010).

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The reason Sweezy gave was that financialisation was required to boost mature capitalist economies out of conditions of chronic stagnation. Thus again his distance from Keen is revealed by his rejection, as early as 1985, of arguments of the type of Keen's and Woolley's, that the financial sector was absorbing talent to the detriment of economic development. Not that he didn't agree that this was a waste of talent, and came at the expense of the real economy. It was just that it was impossible to turn the clock back to growth in the real economy; underlying stagnation was the reason financialisation took off in the first place (Magdoff and Sweezy, 2008, 149). That financialisation was unsustainable only meant that the economy was doomed to revert to chronic stagnation when the bubble burst.

In Sweezy's analysis, the long post-war boom, running throughout the 1950s and 1960s, was fuelled by a number of time-limited factors. As he put it: 'This indeed is part of the very nature of investment: it not only responds to a demand, it also satisfies the demand. Wartime damage was repaired. Demand deferred during the war was satisfied. [...] Expanding industrial capacity always ends up by creating *overcapacity*' (Magdoff and Sweezy, 2008, 36).

Monthly Review seized on the essential nature of capitalism's response to the demise of the post-war boom very early. Already in 1975, in an essay entitled 'Banks: skating on thin ice', Sweezy and then *Monthly Review* co-editor Harry Magdoff were writing of the dangerous dependency of the US economy on its financial sector, and warning of the global economic crisis that would follow its possible collapse (Magdoff and Sweezy, 2008, 146). By the early 1980s they had developed a comprehensive analysis of the financialisation of the capitalist system. In 'The Financial Explosion', an essay published in 1985, Sweezy and Magdoff discussed how the expansion of the financial sector was started in the early 1970s by financial institutions themselves. As the industrial economy slowed down, they sought alternative sources of growth – and found them in the creation of new trading markets (as well as new, developing world targets for lending). Before long, the rest of the economy joined in, industrial firms increasingly seeking growth through mergers and acquisitions, as well as their own trading activities; central banks and finance ministries intervening always and only to keep the financial boom going, to rescue it from its inevitable busts by inflating the next bubble even more unsustainably. Sweezy and Magdoff knew that this could not continue forever, warning as far back as 1985 of 'a bust of classic dimensions' (Magdoff and Sweezy, 2008, 149).

To forestall a potential objection, this was *not* a case of predict-something-for-long-enough-and-you're-bound-to-be-proved-right-eventually, a tribute to longevity rather than sagacity. In 'Production and Finance', an essay from 1983, they foresaw the coexistence of underlying stagnation in the real economy and expansion in the financial sector as potentially persisting for a very long time to come (Magdoff and Sweezy, 2008, 104-5). The reason for this was the social expectation within capitalism that the economy would always continue to grow. Simply in itself this expectation would do a great deal to inflate the debt-fuelled speculation in assets, and thus, for as long as the elasticity of the bubble would allow, become a self-fulfilling prophecy. With the helpful actions of central banks, staving off a series of threatened crashes by inflating the next bubble with cheap money, we can see that this situation could indeed continue for a long time beyond 1983. We can also see that Sweezy and Magdoff were surely right in diagnosing this condition as being fundamentally unsustainable, thus that it was merely a question of time before the financial bubble went pop.

More recently, John Bellamy Foster and Robert W. McChesney, one the current, the other a former editor of *Monthly Review*, have continued to develop this analysis in their

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2012 book, *The Endless Crisis*. In its introductory essay, published in *Monthly Review* earlier in 2012, they describe how the developed economies of North America, Western Europe, and Japan are locked into a 'stagnation-financialisation trap'. Stagnating industrial sectors mean these economies are dependent on their financial sectors for growth; but this does not lead to a commensurate growth in employment or wages, and thus it acts to reduce consumer demand, and exacerbates stagnation. Stagnating demand in turn increases the desire of multinationals to use low-wage workers in the developing world, in part because by lowering costs they can afford to restrain their prices, and this means they can increase the effective demand of Western consumers on faltering incomes. Yet this same 'global labour arbitrage' simultaneously boosts corporate profits and further depresses Western wages, leading to an increasing lack of profitable opportunities for reinvestment in the productive sector in the West, reinforcing stagnation of the real economy yet further. And at the same time, the depression of wages in developed economies increases dependence on the use of credit (as a supplement to income), which in turn exacerbates the unsustainable growth in the financial sector (Foster and McChesney, 2012).

Foster and McChesney comment that while there is now an established literature on the failure of orthodox economists to see 'it' coming, much the same underlying cause, the inability to see evidence which would contradict the ideology of orthodox economics, is responsible for the failure to perceive 'an even bigger fault line of the mature capitalist economy, the tendency to long-term economic stagnation' (Foster and McChesney, 2012). Only in this case, these ideological blinkers do not just pertain to neo-classical economics, but to the system of capitalism itself.

Conclusion: the significance of Steve Keen

Steve Keen has a double significance, first for what he's saying, second for what he is – or rather, isn't. What he's saying contains the intellectual destruction of neo-classical economics, itself the key to the political destruction of neo-liberalism. To see the practical potential of intellectual critique, one need only recall how neo-liberalism's political triumph was built on waging a battle of ideas with social democracy and its brand of 'bastard Keynesianism' (as documented notably in Cockett, 1995). It is this intellectual defeat which explains why the left has so often appeared impotent in its opposition to neo-liberalism over the three-plus decades since the latter assumed political hegemony with the elections of Thatcher and Reagan. The key lies in winning the intellectual ground on which debate takes place, such that one's opponents are forced to concede that your own terms are essentially right. Keen's critique has the power to turn the tables on the neo-liberal right, to finally crack their self-assurance and make them feel foolish and unsure of themselves – at which point debate can once more be conducted on the essential terms of the left. To any social democrat with a touch of imagination and political courage, this is a God-given opportunity.

This is what Keen is – then there is what he is not. He is not an anti-capitalist, not a green; he is not calling for an end to growth, not writing with an explicitly political purpose at all. This makes him of potentially greater use to practical politics at the current moment than those connected with *Monthly Review*, for all their greater understanding of the faults of our economic system. With the best will in the world, Labour's frontbench team cannot get up and start quoting American Marxists, but Keen is another matter – just as, formerly, it was not on for social democrats to refer to Marx, but they could cite Keynes. At the same time, by helping to break the ideological stranglehold neo-liberalism has on mainstream thought, this would itself open up a new space in political debate, and make it

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possible for the social democratic left to begin seriously to explore genuinely alternative economic ideas.

And such exploration is needed, because the economic forces which sustained the neo-liberal model have now exhausted themselves; the bubble of financialisation can't be blown any bigger, and that's that. And nor will somehow trying to rebalance growth away from the City enable us to pick up where we left off before financialisation took over. Without an exploration of alternative thinking, social democratic parties will struggle to convince electorates that they should be in power, not while the prevailing prescription for economic crisis is austerity: in a *Zeitgeist* dominated by public spending cuts, the right have the advantage, since that's in their DNA. Or parties of the left will win elections by default, as the nasty medicine of austerity fails to turn the economy round and people grow increasingly sick of it. But even then, once they are in power, unless they can consider alternative ideas, they will remain trapped within the terms of neo-liberalism, and their management of the economy – the reason they will have been elected – will be doomed to failure.

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