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Validity of the economic thoughts of Keynes and Marx for the 21st century*

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Abstract

This paper examines the validity of economic thoughts of Karl Marx and John Maynard Keynes for the present time. The paper compares Marx and Keynes, and aims to show that the difference in treatment of the major economic issues between them is not as significant as one may expect. Marx and Keynes held some ideas in common with neo-classical economists especially in the sphere of microeconomics, and they differ from neo-classical economists significantly in their approach to both: macroeconomic issues and their consequences for a society as a whole. They predicted wars in the future, and were speaking about a new, and global world! That is why those giants of economic thought deserve to be re-approached and re-examined, especially as the events of our age remind us of no small extent of the times when they had written.

Key words: *crisis, labour, profit, perspectives, liberalism, similarity*

JEL classification: *B 14, E 12*

1. Introductory remarks

There are at least *eleven good reasons* which might motivate a scholar to re-approach and re-examine validity of economic thought of such thinkers as Marx and Keynes were. First, the Central European University in Budapest devoted its 1998 Summer School to the development and promotion of the idea of civil society. George Soros delivered lecture in Budapest expressing his apprehension about market fallibility and future of capitalism. He stressed that, to him, two most distinguished economists to listen to are Marx and Keynes. Second**,** orthodox neo-classical economic shock

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therapy which has been applied in former socialist countries since 1989 revealed itself as an unmitigated failure. The Russian financial crisis was as an example of an extraordinary case in point. According to the CBS news of December 22, 1998, Russian people had neither oil nor electricity for heating in the midst of a terrible winter, nor had they enough to eat - except for a few of them**.** The economy of Bosnia and Herzegovina still recovers from both: the war, and neoclassical economic shook therapy. The rate of unemployment in B&H economy at beginning of 2007. is around 40%, if one does not count widespread "underground economy" as part of formal economy of B&H. Third, developed countries bloated on their 'bubble' economy, repeatedly shake as the Dow Jones Index goes up and down. For them, the question of opening foreign markets becomes an especially relevant issue to keep the Dow up. And Keynes heavily emphasized the relevance of foreign markets for an "old" country economic survival. M. Porter's book (Porter, M. 1998) "The Competitive Advantage of Nations" is hardly anything, but a theory of capital export of transnational corporations from reached countries into global world. Fourth**,** in addition to Keynes, Polany and Hilferding, there are more and more contemporary economists who point out that the present state of economic affairs all over the world, including in developed countries, has to do with the 'market fallibility' hypothesis. Of them let us mention just a few, such as: Korten, D. (1996) "When Corporations Rule the World", Kumarian Press, Nolan, P. (1995) "China's Rise, Russia's Fall", St. Martin Press, Panic, M (2003) "Globalization and National Economic Management", Stiglitz. J. (2003) "Globalization and its discontents W. W. Norton, 2003, Klein, L and Pomer, M, (2001), "The New Russia", Stanford University Press., Murakamy, Y (1996) An Anticlassical Political-Economic Analysis, Stanford University Press. Fifth, international "mega-mergers" taking place all over the world confirm more than ever a Marx proposition expressed as follows" and as soon as formation of capital were to fall into the hands of a few established big capitals…the vital flame of production would be altogether extinguished. It would die out. Things are produced only so long as they can be produced with profit…development of the productive forces of social labour is the historical task and justification of capital. This is just the way in which it unconsciously creates the material requirements of a higher mode of production" (Marx, 1962) Expected mega-mergers between AMBRO bank and Barclay bank ltd. announced in March 2007 confirms without doubts prediction of K. Marx. Sixth, distinguished economist P. Krugman (Krugman, 1998) in his article entitled "Why aren't we all Keynesians yet" discussed the role of Marx and Keynes in the process of development of economic thoughts. He states that Keynes, but not Marx, has contributed significantly in the explanation of causes and determinants of economic crisis and recessions. He considers that Keynes's "General Theory..." for economics science represents exactly the same what "The Origin of Species" represents for biological science. For him Marx work is nothing but an illogical and stupid doctrine. We invite a patient reader to compare deliberations of both: Marx and Keynes on different economic issues such are: origin of crisis, crisis dynamics, remedies for recession, sources of surplus value, the role of labour market, and to check out unbelievable similarity of thoughts between them. How, then, Krugman was able to conclude what he has concluded on greatness of Keynes, and stupidity of Marx? Seventh, on March 6, 2000 Allan Greenspan discussing the state of American economy has commented as follows "Such demand (demand for labour) would intensify inflationary pressure or squeeze profit margin, with either outcome capable of bringing our growing prosperity to and end" May we recall that both: Marx and Keynes were recognizing the phenomena and relationship between wages and profit as the very decisive one, and were elaborating on that seriously. Eight, in years 2000 up to know we are witnessing extraordinary expansion of transnational capital, that is, the process of globalization of the world economy envisaged both: by Marx and Keynes.

Nine, next to those events the world is more and more confronted with disguised fight between national economic management of different nations all over the world, and supranational ideas and ideology based on globalised vision of the world economy and society created by world economic and political leaders: the leading countries and the transnational capital. Less developed countries are striped down from possibility to create and perform a national development strategy, and the whole world is confronted with unconstrained devastating effects of free market ideology, the issue Keynes was discussing in his book. Ten**,** in recently published paper Paul Krugman (Krugman, 2006) world-vide distinguished economists has made several hardly understandable misreading of J. M. Keynes. We would like to mention few of them, we comment in the paper extensively. First, Krugman points out that Keynes's Book is a book that deals with insufficient consumption as a main cause of economic crisis. According to Krugman, Keynes showed that mass unemployment had a simple cause, inadequate demand, and an easy solution, expansionary fiscal policy. With regards to this thought we would comment that: a) *insufficient demand is hardly a primary cause of mass unemployment. In fact, it is decline of marginal efficiency of capital which brings an economy into state* of slump and mass unemployment, b) marginal efficiency of capital is an "artificial term" invented by Keynes in order to substitute for term – marginal product of capital. The term is invented because Keynes considers labour as only source of value and wealth of nations. According to Keynes capital does not have productivity, c) Krugman holds that Keynes's Theory is static model, not a dynamic one- a picture of an economy stuck in depression, not a story about how it got there. We consider that just opposite of that is true understanding of Keynes work. Keynes has mindfully depicted and explained a trade cycle and causes of business cycle. He describes both: the phase of prosperity and phase of slump explaining main determinates of those movements, d) The role of monetary policy and its ineffectiveness in both cases: a case of the 1929 slump, and 2000 Japan's recession is comparable by no means. Keynes's work is coloured much more by the role of monetary policy than is usually believed, even by P. Krugman. Monetary policy has special aim, which is to *make inflexible wages flexible by means* *of inflation*, keeping in the same time good climate for attractive marginal efficiency of capital. Monetary policy provides for a difference between "nominal" and "real wage", which is a "magic" move to make a difference between marginal product of labour and marginal costs of labour. Eleven, Keynes's words of caution relating to globalization, and *"hands of sort of economic policy" which took hold in the 19th century are valuable for contemporaries, and for EU in particular*.

2. Globalization and national economic management

In the development of economic thought to date, there has been a fascinating interdependence between economic events, economic ideas and economic policies. One of the most obvious examples of the interaction since the Second World War is the change of focus from unemployment, a Keynesian idea and economic policy, to inflation, that is monetarism, as an idea and policy. An analogous change occurred in the acceptance of Phillip's curve and Ocun's law from the Second World War until 1970 and their replacement by the vertical Phelp's curve together with the notion of rational expectations. With the formation of the IMF and GATT, as institutions concerned with international finance and trade based on principles of free trade and comparative advantages, the stage was set for the greatest prosperity that the world economy has ever experienced to date. In the years immediately after 1945 the supply curve of national economies showed a positive Keynesian slope. During the fifties it became generally accepted that the Phillip's curve, that is a Keynesian type of economic policy was completely compatible for national economies in their attempts to control deflation and also inflation. It is certainly true that in comparison with 19century economic liberalism internal economic equilibrium came to have priority over equilibrium of the balance of payments. Foreign trade and currency measures were targeted to achieve affirmative and useful effects from the foreign trade multiplier and accelerator in the interests of economic growth of the national economy. Keynesian economy policy at home was supplemented by choice of a growth strategy based on the theory of the comparative advantages of the 2x 2 x 2 model. At the beginning, while the argument for protecting new industries was valid, a policy of import-substitution was the dominant strategy for the economic growth of small open economies as well as for large countries. In time the small open economy, which had become a price taker, became more and more geared to an export growth strategy, and had become not only the price taker but also the rule taker. Concentration on the production of an increasing number of tradables ever increasingly made the small and medium countries dependent countries. Unless, of course, the countries concerned had opted for the Prebish or Myrdal models of isolation from the world economy with all the negative consequences of such a decision for growth (as was the case of Latin America). In spite of this the production of firms of the small open economy more or less completely became part of the offer curve of national economies. The process of transnationalization of the world economy had begun. In 1958 the currencies of the EEC countries became convertible with the result that their markets and their economic policies became interdependent. Europe very quickly become competitor of the USA. From 1960-1965 wages in Europe and Japan, the main US competitors, rose from between 2-6 per cent annually, white wages in the US fell during the same period 0. 7 per cent. The new wage relationships caused a balance of payments surplus in America which reached 6. 6 bn dollars in 1964 (Mundel, E. 1972:7). However, acceptance of the concept of full employment based on the slogan "We're all Keynesians today" required in the USA, and not only there, an expansive monetary policy. In the meantime the expenses of financing the Vietnam War increased, with the result that inflation soon became enemy number one for the American economy. In 1971, for the first time since 1888, America had a balance of trade deficit of 2 bn dollars. The offer curve of the American economy had become a vertical. The world was at that point looking for a new economic policy. When the curve had become a vertical Keynesianism became counterproductive. Nevertheless economists went on trying to cure stagflation by counterproductive Keynesian methods supported by a policy of fluctuating currency rates of exchange. By passing to fluctuating exchange rates in an attempt to save Keynesianism the effect of the Phillip's curve deepened stagflation the world over. This showed that although the world might have become interdependent, isolationism was still very much alive. In other words priority was still given to the national economy. The supranational like process of transnationalization in the world economy was to gain impetus as soon as the time was ripe. The prosperity of the world economy was certain at some point or another to come to an end. According to C. Dumas (Dumas, 1985) "the long expansion of the 1950s and the 1960s consisted to a considerable degree of more of the same... This relates directly to the inadequacy of present capacity, not only in the implied need to invest in new industries' and write down the capacity in shrinking traditional industries but also in the need to transform by new investments the productive processes of industries with still salable products but outmoded method... Both the incentive to apply advanced labour-saving technology and the actual development of such techniques have to be linked to the large increase in wage cost over the past thirty years". The world economy had to enter a phase of structural transformation. This was well presented by Schuker (Schuker, 1998) in his" American Reparations to Germany" in which he gave a reminder that the world economy had for 300 and more years experienced what he called long waves. Long waves went together with the process of the concentration and centralization of capital - together with the growth of firms and their efficaciousness. The natural result of this was that after 1980 Keynes was replaced by monetarism. Monetarism had a slogan: "Governments do not solve the problem they are the problem". The Welfare State had played out its role of guardian of economic progress and prosperity. The new economic policy operated under the slogan: "The best industrial strategy is: tough penalties for business failure, high rewards for success and low interest rates without inflation". Monetarism brought bankruptcy to many firms in all the countries that resorted to it. Since then it has become main stream economic policy. Even so monetarism is still a national economic policy, it still has a national identity. Operating thus with national economic development goals, monetarism achieved structural transformation of the economy in all countries where it took hold, and in the process led to the centralization of capital and the creation of gigantic companies. In the world economy it created conditions for inter-continental economic integration of companies. According to Lumb (Lumb, 1990:7,15) competition in traded goods raise significantly, since such goods are exposed to global competition. Between 1979-1989 in America 1. 4 million jobs were lost in industry, yet industrial production increased by about 30 per cent. Integration between the transnational corporations of the USA and Europe attained 200 bn dollars annually. In 1989 alone in Europe the business of European transnational companies was integrated by more than 50 bn dollars. Between 1984-1988 direct European and Japanese investment in the USA increased by 108 bn dollars and 37 bn dolars respectively. Graham's contention concerning the production of goods in common is today vindicated. The production of goods in common demands the formation of a world economic policy and a world government thereby replacing national economic policies by a world economic policy. Any theory of international trade formed according to the principles of the theory of comparative advantages 2 x 2 x 2, regardless of whether the production curve is the result of differences in technology (Ricardo) or in proportional availability of factors of production (Heckscher-Ohlin), it will with increasing difficulty explain the Leontiev paradox. In an imperfect market Vernon's theory of foreign trade impulse is a far better explanation of the true role of firms on the market and in the international division of labour. Even though Vernon's theory of foreign trade impulse still places the firm and its products in the aggregate offer curve of a national economy. Multinational companies are concerned only by where to locate their production. Decisions concerned with financial sources are of secondary character, since the international marketing factors are largely integrated and show a tendency towards complete integration. In this context recently, quite rightly, Krugman, Lancaster (Sodersten, 1994) and others (Porter, 1998) in their research to evolve an adequate theory of foreign trade stress characteristics not of countries but of products or industries. The comparative advantage characteristics that underlie trade patterns are viewed as dynamic and often endogenous rather than as static and exogenous. As a result, the welfare implications of trade considered in this framework, and of intra-industry trade in particular, are fraught with ambiguity and a fragility unknown to the classical and neoclassical paradigms. The globalization process at work in the world economy and its intercontinental integration places the firm in first place - the multinational company (MNC) becomes the basic actor in the world economy. What is considered national integration within the framework of the EU can be considered more as functional than as national integration. With the globalization of the world economy national economic policies must change. The world is moving towards a single, global economic policy which has yet to find its formulation in economic thought. Keynesianism, monetarism and other economic policies are national in character and as such are no longer suitable for the times ahead. The theory of international trade also needs reconsidering since MNC production is no longer a part of the offer curve of national economies, and it is difficult to understand the welfare implications of the MNC. It is also difficult to evolve a national foreign trade policy. In today's conditions the problematic position of the medium developed country takes on new dimensions. Small medium developed nations cannot easily select a strategy of economic growth under conditions of international functional integration. Their economic decision making cannot be isolated and independent. Their dimensions of comparative advantage are changed. They become not only price takers but rule takers. If the country is a debtor country, then she must formulate a strategy of economic growth as much in keeping as possible with the rules of the game dictated by firms. Quite certainly in the transition period leading to full globalization of the world economy it is the economies of the large countries which are the price setters and the rule makers.

Question that still remains unresolved, and had been asked both: by Keynes and Marx is the following: shall the world economy succeed in creating a just world society based on the principle: one vote=one man, or we will be travelling towards the world in which slogan is :one dollar = one vote. Keynes was not able to comprehend a fully globalized world, the world without national economic management strategies and policies. Marx spoke about a transformation of capitalism into a post-capitalist society. This is why both Keynes and Marx deserve reconsideration of their ideas in year 2006.

3. Back to Keynes' origin

From 1929 to 1932 the world economic scene was dominated by deflationary forces. U. S. GNP, for example, fell by more than half. U. S. industry operated at only half capacity. At the same time wholesale prices dropped by 32% (Ellsworth, 1950) Revitalisation of the economic activity became one of the first priorities worldwide. The economies all over the world underwent a great economic, political and sociological shock which could not but seriously impact the development of economic thought. The basic postulate of the neo-classical economic paradigm became questionable. Wages and prices were no longer flexible in downward direction. The lessons of liberalism were learnt: a cyclical movement of the economy might not be tolerated any more. Since the World War II, employment has become the primary objective of economic policy in almost every country. In such a context the practice of economic liberalism was substituted by a newly born practice of economic interventionism. Internal equilibrium became more important than the external one. Since the time of Great Depression the economic thought was heavily influenced, indeed dominated, by Keynesian economic doctrine. Keynes himself shifted the focus of his economics from the theory of prices, which for him lost significance, to the matters of employment and interest rate, as monetary phenomena. Keynesian analysis was dominated by the significance of investment and consumption in the context of attaining the main objectives of economic policy - full employment and internal equilibrium. Simply speaking, the Keynesian concept was based on an interaction and inter-dependence between: investment, consumption, saving and income. Starting from a less complicated interpretation of the Keynesian mechanism, one can say that employment (production) is determined by the level of aggregate demand. The aggregate demand is, in turn, determined by schedules of investment and consumption. Consumption function is a determined variable and it varies depending on the direction of income changes. Saving is, also, a function of income. Saving increases as income increases. In the position of an equilibrium in a national economy, saving equals investment whereas income is equal to the level of consumption and investment taken together. According to the Keynesian logic demand become the basic leverage of the increase of the aggregate economic activity, employment and production. Fiscal policy is in charge of stimulating demand in so far as the declining propensity to consume, coupled with an income increase, is endangering consumption and overstimulates saving in the same time. Keynes treated saving as a factor which deter economic growth. The Keynesian economic system, introducing purposeful state intervention into economic life, understood that the system of "free trade" cannot be trusted enough from the standpoint of the economic stability of a country. At the time when 'The General Theory of Employment, Interest and Money' was created, one could not possibly conceive and contemplate that only forty years later the role of the state and Keynes's attitude toward saving would become the main weaknesses of Keynes's system to which adherents of Supply Side Economics will point as to the weakest point of Keynes's theory. However, since the World War II until mid sixties world economy and economies of individual countries enjoyed an unprecedented prosperity. That was a time of full employment and relative price stability, the time of both welcome mild inflation, and unprecedented economic growth. By resorting to Keynesian economic ideas, the world economy managed to eliminate and eschew recession phases of a business cycle. At the end of 1960s former U. S. president Nixon summed up the development of economic thought since the World War II by declaring 'We are all Keynesians today'. The expressions such as: GNP, money supply, money demand, interest rate, marginal efficiency of capital are the building block of Keynesian economics. Keynes's terminology has become esperanto for economics. Still, in late 1960s new and unexpected movements and signs begin to appear in the world economy. These signs were out of context of Keynesian economics. The more countries applied Keynesian therapy, the more they were confronted with the illness which could not exist, by definition, if only Keynesian therapy was adequately applied. The world experienced such unforeseen phenomena as: stagflation, decrease of productivity of labor within developed economies, ever increasing role of monetary factor as a main source of inflation and ever increasing negative role of state intervention in the economy. According to the conventional interpretation of Keynesian economic mechanism, stagflation is an impossible phenomenon. With ever increasing role of the state, with increasing demand, provided by state intervention (regardless is it provided either by fiscal or by monetary policy), stagnation of economic activity is incongruent with the Keynesian assumption concerning the role of consumption as a stimulating factor which generates economic growth, production and employment. Besides, Keynes did not pay enough attention to inflation as a monetary phenomenon, or at least it seemed so. Increase in labor productivity is the main postulate of Keynesian economics. Therefore, decrease of labor productivity was contrary to everything that Keynes followers believed. Money supply could influence only bond prices and had no influence whatsoever on goods prices. Such an interpretation of Keynesian economic apparatus has been offered even by such d economists as: Harry Johnson, and Fritz Machlup (Johnson, 1962, Machlup, 1973) In the meantime, since the World War II it has become more and more clear that money supply is an ever increasingly important factor which determines the price level and the level of inflation. Bearing in mind the above mentioned remarks concerning Keynes' economic thought and world wide economic practice during 1960s and 1970s, a question automatically arises: either, conditions in the world economy have been changed to such an extent that Keynesian economics became inappropriate or his thought as a whole was not consistent enough from the very beginning, which became obvious in the present state of world economic affairs? We would propose a hypothesis that the proper answer must account for both possibilities. The 1960s and 1970s are different from the 1920s and 1930s. Inflation, unemployment, declining growth rates of GNP have been experienced to the greatest extent exactly in those countries that had applied Keynes's precepts most thoroughly. Even more interestingly, we would like to put forward a *hypothesis that those same countries would have faced a similar fate if they had followed Marx economic thought?!*

4. Keynes' economics and Marx

Keynes' economic mechanism is more easily understood if one tries to draw a parallel with both the process and manner of functioning of national economies in the 19th century. That was the time when the famous gold standard was in force. According to Keynes, the economy was able to perform well at that time due to the facts that "during the nineteenth century, the growth of population and of invention, the opening-up of new lands, the state of confidence and the frequency of war over the average of (say) each decade seem to have been sufficient, taken in conjunction with the propensity to consume, to established a schedule of the marginal efficiency of capital which allowed a reasonably satisfactory average level of employment to be compatible with a rate of interest high enough to be psychologically acceptable to wealth-owners. There is evidence that for a period of almost one hundred and fifty years the long-run typical rate of interest in the leading financial centers was about 5 per cent, and the gilt-edged rate between 3 and 31/2 per cent; and that these rates of interest were modest enough to encourage a rate of investment consistent with an average of employment which was not intolerably low." (Keynes, 1964:308). Analyzing the last 150 years, Keynes noticed that 'wage units' were increasing. But, at the same time, productivity of labor was increasing too. Convergence of these factors permitted stability of prices to exist throughout this period. Keynes underlined: "Today and presumably for the future the schedule of the marginal efficiency of capital is, for a variety of reasons, much lower than it was in the nineteenth century. The acuteness and the peculiarity of our contemporary problems arise, therefore, out of the possibility that average rate of interest which will allow a reasonable average level of employment is one so unacceptable to wealth-owners that it cannot be readily established merely by manipulating the quantity of money. So long as tolerable level of employment could be maintained on average for one, or two, or three decades merely by assuring adequate supply of money in terms of wage-units, even the XIX century could find the way. If this was our only problem now – if a sufficient degree of devaluation is all we need today, we would certainly find a way... To return to our immediate subject**,** the long-run relationship between national income and the quantity of money will depend on liquidity-preferences. And the long-run stability or instability of prices will depend on the strength of the upward trend of the wage-unit (or, more precisely, of the cost-unit) compared with the rate of increase in the efficiency of the productive system." (Keynes, 1964:309). By quoting extensively from Keynes's book, we would like to turn the attention of the reader to one of the most important but *still least understood elements of the entire Keynesian system and mechanism: that is to the 'wage -unit' or, put more simply, to the role which the cost of labor* (wages) have in the whole process of socio-economic reproduction. We would say that the entire complexity and strength of Keynes's economic thought is based on this category and its proper understanding. At the same time, we would to put a *hypothesis that the essentially same category makes the fundamental basis of all classical and neo-classical economic thought*. Having the 'wage-unit' as a basis of the system, Keynes built his 'castle', whose main building blocks are: marginal efficiency of capital, interest rate and propensity to consume. These building blocks had to be laid on the foundations called the wage-unit. Therefore, it is clear why Keynes, at very beginning of his book, sought to define fundamental accounting categories of his system. To this end Keynes suggested introduction of two accounting units: money value and quantity of employment (Keynes, 1964:245). Proceeding in the same direction and in order to make the analysis as simple as possible, Keynes converted complex labor into simple labor. Simple labor is a basic accounting unit, whereas complex labor is multiplied simple labor. The unit which measures quantity of employment Keynes entitled 'labor-unit'. The monetary expression of a labor unit he calls 'wage-unit'. Therefore, if (E) denotes total amount of money available for wages, and if (W) is wage-unit, having in mind that (N) represents quantity of employment we have:

$$E = NW$$

If we try to interpret Keynes categories differently, we may, possibly, say that a wage-unit could be comparable to the cost of labour employed. Within such a context a wage-unit could and should be related to both productivity of labour and money wage. Every move to increase money wage above productivity of labour, that is, to increase the costs of production, causes inflationary effects and decreases demand for labour at the same time. The relationship between money-value of wages and productivity of labour, keeping in mind the state of unchanged technology, leads the economy towards full employment only insofar as wages increase to the same extent or even (what is much better from the full employment point of view) if wages lag behind an increase of productivity of labour. The relationship between wage-unit (real wage), and marginal productivity of labour is one of the most fundamental relationships, as far we are able to understand, of the neo-classical school of economic thought. According to the rules of the game of the neo-classical economy, demand for labour increases as long as marginal revenue outstrips marginal cost of production, or (which is almost the same) until marginal productivity of labour does not equate with marginal cost of labour, or until marginal productivity of labour becomes equal to real wages. Demand for labour is determined by both factors: marginal productivity of labour and marginal cost of labour. With *respect to the most essential part of neo-classical economics Keynes did not retreat at all!* Therefore, one can say that Keynesian revolution is much less of an revolution but more it is an interventionist anti-deflationary mechanism. With regard to the same essential moment of neo-classical economics, Keynes accepts one of the axioms of Marx economics which is *differentia specifica* of capitalist production. Labour power is sold today, not with a view of satisfying, by its service or by its product, personal needs of its buyer. His aim is augmentation of his capital, production of commodities containing more labour than he pays for, containing therefore a portion of value that cost him nothing, and that is nevertheless realized when the commodities are sold. Production of surplus value is the absolute law of this mode of production. Labour power is only saleable so far as it preserves the means of production in their capacity of capital, reproduces its own value as capital, and yields in unpaid labour a source of additional capital…Wages, as we have seen by their very nature, always imply the performance of a certain quantity of unpaid labour on the part of the labourer. Altogether, irrespective of the case of rise in wages with a falling price of labour, such an increase only means at best a quantitative diminution of the unpaid labour that the worker has to supply. This diminution can never approach the point at which it would threaten the system itself. Apart from violent conflict as to the rate of wages, (and Adam Smith has already shown that in such a conflict, in general, the master is always the master), a rise in the price of labour resulting from accumulation of capital implies the following alternatives: either the price of labour keeps on rising or its rise does not interfere with the progress of accumulation. Or, on the other hand, accumulation slackens in consequence of the rise in the price of labour, because the stimulus of gain is blunted. The rate of accumulation decreases; but with its decrease, the primary cause of that decrease vanishes; i. e. the disproportion between capital and exploitable labour is reduced. Thus, in the first case, we see that it is not the diminished rate either of the absolute or of the proportional increase in labour-power, or labouring population, which causes capital to be in excess, but conversely the excess of capital that makes labour-power insufficien. To express it in mathematical terms: the rate of accumulation is the independent, not the dependent, variable; the rate of wages is the dependent, not the independent, variable. The law of capitalist production reduces itself simply to this: the correlation between accumulation of capital and the rate of wages is nothing else than the correlation between the unpaid labour transformed into capital, and the additional paid labour necessary for the setting in motion of this additional capital." (Marx, 1962:618-620). The aforementioned quote we consider very essential for all brands of economics thought, whether it be : neo-classical economics, Keynesianism, Post-Keynesians, Monetarism, Supply-Side economics, Rational-expectations school. The message cited seems to express the very same relationship from the microeconomic sphere of economic activity emphasized definitely as an axiom by all schools of thought as a relationship between marginal productivity (revenue) of labour and marginal cost (wage) of labour**.** But, to differentiate himself from classical economists (the same is valid in comparison to the neo-classical economists), Keynes constructed the 'point' by applying monetary policy in order to make a difference between 'money value' of labour cost and 'real' wages. On the other hand, one can say that Marx's notion regarding the 'use' value of labour is synonymous with marginal productivity of labour over marginal cost of labour. Exchange value of labour is interchangeable with the term - marginal cost of labour. From the vantage point of market economy, it is clear why both terms: use value of labour and exchange value of labour can not be the same. In the state of equilibrium of a national economy, having in mind full employment, real wages equal marginal productivity of labour, whereas saving equals investment. (Stojanov, 1985) When real wages (marginal cost of labour) exceed marginal productivity of labour, investment activity decreases, demand for labour declines and supply of labour outstrips demand for labour - unemployment increases. Supply of labour and demand for labour could be brought into the equilibrium again through the interplay of supply and demand forces which is supposed to produce a decrease of money wages. Keynes's fear from a worldwide deflation originated just at this point. He was afraid of Gibson's' paradox not in the sense of inflation, but in the sense of deflation and its attendant effects. *Deflation caused by decline **of** wages could provoke deflationary expectations.* A deeper deflation could, in turn, lead to further decrease in prices and ever-increasing supply of unemployed labour. A crisis, i. e. depression becomes unavoidable. In the book 'Treatise on Money' (while Keynes still was a classical economist) he wrote: "the market interest rate declines but not as quickly as is necessary to match with the natural rate of interest, therefore leading to destimulation of profit which, per se, leads to further deflation and price decrease. If that happens, our present system of capitalist individualism will be substituted by far-reaching socialism." (Hadjimichalakis, 1982:346). In times of crisis, preferences towards liquidity strongly increase. Keynes called such a preference - liquidity trap. Economy is in a state of stalemate. Mass unemployment follows. *The so-called 'Pigou' effect is insufficient to bring in investment and production again.* Similarly, as much as inflationary expectations can stimulate consumption, deflationary expectations can stave off consumption due to the fact that consumers expect lower and lower prices. Having in mind the effects of liquidity trap and being afraid of socialism too, Keynes wanted to prevent wages from further decline. Keynes created the thesis about the real life existence of fixed (inflexible) money-wages and a possibility of flexible real wages. Under the circumstances of inflexible money wages, inflation can cause the same effect as deflation can under circumstances of a decline of money wages. We would like to introduce the following thesis as the *essence of Keynes economic mechanism: real wages should be decreased by increasing inflation in order to propel economy up from the state of deflation (depression).* As stated before, the building blocks of Keynes's economic mechanism are: consumption, marginal efficiency of capital and interest rate. By increasing money supply, with money demand being constant, or by varying relationship between money supply and monetary demand, Keynes affected: consumption, marginal efficiency of capital (influencing both: revenue and costs) and interest rate. Ever decreasing marginal efficiency of capital requires ever decreasing interest rate in order to keep wealth-owners in the field of investment instead of stimulating them to proceed with the process of portfolio selection and substitute bonds for production. While we contemplate the relationship between interest rate and profit rate or between interest rate and marginal efficiency of capital (which is same if marginal efficiency of capital is equal to Fisher's internal rate of return or similar in meaning to Tobin's coefficient 'Q'), let us see what Marx had to say: "Since interest is merely a part of profit paid, according to our earlier assumption, by the industrial capitalist to the money-capitalist, the maximum limit of interest is the profit itself, in which case the portion pocketed by the productive capitalist would equal zero. Aside from this exceptional case, in which interest might actually be larger than profit, but then could not be paid out of profit, one might consider as the maximum limit of interest the total profit minus the portion… which resolves itself into wages of superintendence. The minimum limit of interest is altogether indeterminable. It may fall to any low. Yet in that case there will always be counteracting influences to raise it again above this relative minimum. In any event the average rate of profit is to be regarded as the ultimate determinant of the maximum limit of interest... If we observe the cycles in which modern industry moves - state of inactivity, mounting revival, prosperity, overproduction, crisis, stagnation, state of inactivity, etc., – we shall find that a low rate of interest generally corresponds to periods of prosperity or extra profit, a rise in interest separates prosperity and its reverse, and a maximum of interest up to a point of extreme usury corresponds to a period of crisis. The summer of 1843 ushered in a period of remarkable prosperity; the rate of interest, still 4 ½ in the spring of 1842, fell to 2% in the spring and summer of 1843; in September it fell as low as 1 l/2% ; whereupon it rose to 8% and higher during the crisis of 1847... The rate of interest reaches its peak during a crisis, when money is borrowed at any cost to meet payments. Since a rise in interest implies a fall in the price of securities, this simultaneously offers a fine opportunity to people with available money-capital, to acquire at ridiculously low prices such interest-bearing securities as must, in the course of things, at least regain their average price as soon as the rate of interest falls again." (Marx, 1962:351). Marx was saying that for some time a high interest rate and a high profit rate can co-exist together with a lower rate of remuneration which belongs to entrepreneurs. The point is that the last one is highly relevant from the vantage point of production. Having not enough own capital and having difficulties to sell the goods, an entrepreneur must borrow capital often, even for everyday transactions. He borrows capital and gets in debt. (At this point it would be useful to introduce Schumpeter's thinking on the role of money and credit, and compare his views concerning the role of money and credit with both Marx's and Keynes's). The phase of overproduction or stagflation (which is basically the same in substance) transforms itself into a new phase - depression violently, of course, in Marx's time when state intervention was almost non-existent. Keynes wanted to prolong the phase of stagflation by lowering interest rate below the level of marginal efficiency of capital, or, to use Marx's terminology, below the level of the entrepreneur's share of profit. On the beginning of his 'General Theory...' Keynes included an introduction, not repeated later, to the difference and meaning of real wages and money wages. "Now ordinary experience tells us, beyond doubt, that a situation where labour stipulates (within limits) a money-wage rather than a real-wages far from being a mere possibility, it is a normal case. Whilst workers will usually resist a reduction of money-wages, it is not their practice to withdraw their labour whenever there is a rise in the price of wage-goods. It is sometimes said that it would be illogical for labour to resist a reduction of money-wages but not to resist a reduction of real wages. But, whether logical or illogical, experience shows that this is how labour in fact behaves." (Keynes, 1964:353). Let us recall, for the moment, that the term 'wage-goods', which is similar to the expression marginal product in the wage-goods industry, not only remind us, but is substantially equal in its meaning to the Marx's notion that wages are determined by prices and labour productivity in the sphere of production of consumption goods. Therefore, if productivity of labour employed in production of consumption goods increases, real wages will have to increase even when money wages are unchanged. However, Keynes said that: 'with a given organisation, equipment and technique, real wages and the volume of output (and hence of employment) are uniquely correlated, so that, in general, an increase in employment can only occur to the accompaniment of a decline in the rate of real wages. Thus, I am not disputing this vital fact which the classical economist has (rightly) asserted as indefeasible. In a given state of organisation, equipment and technique, the real wage earned by a unit of labour has a unique (inverse) correlation with the volume of employment. Thus, if employment increases, then, in the short period, the reward per unit of labour in terms of wage-goods must, in general, decline and profit increase. This is simply the obverse of the familiar proposition that industry is normally working subject to decreasing returns in the short period during which equipment etc. assumed to be constant; so that the marginal product in the wage-goods industries (which governs real wages) necessary diminishes as employment is increased. So long, indeed, as this proposition holds, any means of increasing employment must lead at the same time to a diminution of the marginal product and hence of the rate of wages measured in terms of this product." (Keynes, J. M. 1964:9). Stressing the essence of his work, Keynes underlined that 'the volume of employment in equilibrium depends on (1) the aggregate supply function, (2) the propensity to consume and (3) the volume of investment. This is the essence of the General Theory of Employment.' (Keynes, 1964:17) "For every value of (N) there is a corresponding marginal productivity of labour in the wage-goods industries; and it is this factor which determines the real wages. The volume of employment in equilibrium is, therefore, subject to the condition that (N) cannot exceed the value which reduces the real wage to equality with the marginal distillate of labour. This means that not all changes in (D) are compatible with our temporary assumption that money-wages are constant. Thus it will be essential to a full statement of our theory to dispense with this assumption. "(Keynes, 1964:29). It means that Keynes had flexible wages, just as neo-classical economists**.** Money-wages can even increase, but real-wages must lag behind the increase of labour productivity. *Keynes substituted the drop of nominal wages and fear of deflation by decreasing real wages and intentionally 'producing' inflation***.**" If the reduction of money-wages is expected to be a reduction relative to money-wages in the future, the change will be favourable to investment, because as we have seen above, it will increase the marginal efficiency of capital, whilst for the same reason it may be favourable to consumption." (Keynes, 1964:29). Keynes formulated a thesis which even today has significant relevance, especially for those countries which have to follow the rules inflicted upon them by the IMF. Keynes wrote: "To suppose that a flexible wage policy is a right and proper adjunct of a system which on the whole is one of laissez-fairer, is the opposite of the truth. It is only in a highly authoritarian society, where sudden, substantial, all-round, changes could be decreed that a flexible wage-policy could function with success. One can imagine it in operation in Italy, Germany or Russia, but not in France, the USA or Great Britain." (Keynes, 1964:269). Further, Keynes wrote: "In particular, it is an outstanding characteristic of the economic system in which we live that, whilst it is subject to severe fluctuations in respect of output and employment, it is not violently unstable. Indeed it seems capable of remaining in a chronic condition of sub-normal activity for a considerable period without any marked tendency either towards recovery or towards complete collapse. Moreover, the evidence indicates that full, or even approximately full, employment is of rare and short-lived occurrence." Such a state of economic system Keynes has observed in practice. It is not system which cannot be changed. Therefore, full employment in an economy, which neo-classical economists take for granted, is an exception. It is not the rule and hardly can be. Keynes's task was to figure out such a system's parameters which can be consciously managed in order to guide the economy successfully towards the level of full employment and far away from economic crises, let alone economic crashes and social revolutions. Therefore, we would like to nominate Keynesian economic as an anti-deflationary, anti-crisis, demand-managed economic policy. Reminding us often of Marx's thought, it is not surprising that Keynes spoke about the necessity of substituting the capitalist way of production by the society embracing in greater extent elements of social solidarity and ethic. Keynes thought: "Moreover, the richer the community, the wider will the gap between its actual and its potential production tend to be; and therefore the more obvious and outrageous the defect of the economic system… A wealthy community will have to discover much ampler opportunities for investment if the saving propensity of its welfare members are to be compatible with the employment of its poorer members… But worse still, not only is marginal propensity to consume weaker in a wealthy community, but, owing to its accumulation of capital being already larger, the opportunities for further investment are less attractive unless the rate of interest falls with sufficient rapidity." (Keynes, 1964:249). A major factor that stimulates production is profit. In deciding about production, an entrepreneur wishes to maximise profit. Therefore: "It follows that in given situation of technology, resources and factor cost per unit of employment, the amount of employment, both in each individual firm and industry and in the aggregate, depends on the amount of the proceeds which the entrepreneurs expects to receive from the corresponding output. For entrepreneurs will endeavour to fix the amount of employment at the level which they expect to maximise the excess of the proceeds over the factor cost... Now if for a given value of (N) employment the expected proceeds are greater that the aggregate supply price (Z), i. e. if (D) is greater than (Z), there will be an incentive to entrepreneurs to increase employment beyond (N) and, if necessary, to increase costs by competing with one another for the factors of production, up to the value of (N) for which (Z) has become equal to (D). Thus the volume of employment is given by the point of intersection between the aggregate demand function and the aggregate supply function; for it is at this point that an entrepreneur's expectation of profit will be maximised" (Keynes, 1964:31). When an economy reaches full employment level, investments are equal to saving; money supply equals money demand, whereas marginal revenue equals marginal cost. Goods' markets and capital markets are in equilibrium. Economy is in stand-still condition. Marginal profit equals zero. Any resumption of the production above that point 'produces' loss for an entrepreneur. (See p. 217 of the General Theory). Thus, the stock of capital and the level of employment must decrease to such an amount which is necessary for a community as a whole, to be impoverished enough in order to get aggregate saving to zero point and society to face lack of capital again. "Thus, for a society such as we have supposed, the position of equilibrium, under conditions of laissez-faire, will be one in which employment is low enough and the standard of life is sufficiently miserable to bring saving to zero." (Keynes, 1964:25). Simply speaking, both the abundance of goods supply as well as abundance of capital supply holds production down. Overproduction of goods and profit do not go hand in hand. *In the long run, capital must not be abundant factor of production if an economy wants to keep marginal efficiency of capital at the level which is at least as high as interest rate, for in a society in which marginal efficiency of capital is zero, and would be negative with any additional investment* (Keynes, 1964:217, 218). At this point very interesting comparison could be made with Adam Smith's deliberations concerning the rate of profit and supply of capital. Adam Smith believed that competition would cause the rate of profit to fall with accumulation of capital; for more see A. Smith, Chapters VIII and IX. Thus, according to Keynes, 'Pareto optimality', which is the founding stone of all neo-classical schools of thought, whether Neo-classical proper, Monetarism, Supply-Side economics or Rational-expectations school, simply is not possible. That is why, besides the other points, the neo-classical school of thought reject Keynes economics. At the same time*, all that was said by Keynes with respect to the issue of the so-called 'overproduction' of capital had been said earlier by Marx.*

5. Keynes and Marx on economic crisis

In time of economic crisis, which automatically renders disequilibrium into equilibrium, regardless of price and time, due to the fact that Pareto optimality is impossible to be kept continuously and in the long run - if production takes place for profit alone – Overproduction of capital is not absolute overproduction, not absolute overproduction of means of production. It is *overproduction of means of production only in so far as the latter serve as capital, and consequently include a self-expansion of value*, must produce an additional value in proportion to the increased mass. Yet it would still be overproduction, because capital would be unable to exploit labour to the degree required by a 'sound', 'normal' development of the process of capitalist production, to a degree which would at least increase the mass of profit along with the growing mass of the employed capital; to a degree which would, therefore, prevent the rate of profit from falling as much as the capital grows, or even more rapidly. Overproduction of capital is never anything more than overproduction of means of production - of means of labour and necessities of life - which may serve as capital, i. e. may serve to exploit labour at a given degree of exploitation; a fall in the intensity of exploitation below a certain point, however, calls forth disturbances, and stoppages in the capitalist production process, crises, and destruction of capital." (Keynes, 1964:217). Marginal efficiency of capital is determined by several factors. Besides the other factors it depends on price movements. *Contrary to the thesis that the Keynesian economic is economics either free of inflation or anti-inflationary, it does not mean that prices do not* rise. Whether the prices in Keynesian economics are stable or not was one of the issues which have raised plenty of controversies among interpretations of Keynesian economics. We would say that, for the moment, it suffices to recall one of the price determinants. That one reminds us of Marx's view with regard to price movements. Namely, speaking about productivity of capital Keynes said that it is "much more preferable to speak of capital as having a yield over the course of its life in excess of its original cost, than as being productive. For the only reason why an asset offers a prospect of yielding during its life services having an aggregate value greater than its initial supply price is because it is scarce… If capital becomes less scarce, the excess yield will diminish, without its having become less productive-at least in the physical sense." (Marx, 1962, III:250). *Keynes here joins a big party of three: Smith, Marx and Schumpeter who believed that capital does not have productivity and* subsequently does not produce profit. "I sympathise, therefore, with the pre-classical doctrine that everything is produced by labour, aided by what used to be called art and is now called technique, by natural resources which are free or cost a rent according to their scarcity or abundance, and by the result of past labour, embodied in assets, which also command a price according to their scarcity or abundance. It is preferable to regard labour, including of course, the personal services of the entrepreneur and his assistants, as the sole factor of production, operating in a given environment of technique, natural resources, capital equipment and effective demand…. This partly explains why we have been able to take the unit of labour as the sole physical unit which we require in our economic system, apart from units of money and time." (Keynes, 1964:213). When marginal efficiency of capital equals zero, absolute profit is maximised but marginal profit becomes zero. Since that moment the economy can move into two directions, either towards stagflation or towards deflation. Both Marx and Keynes detected when and why an economy comes to a slump phase. However, Marx had concluded that the phase of slump is unavoidable within the framework of capitalist mode of production. Keynes chose stagflation as a more appropriate solution; in fact he has chosen such a transformation of the society which could be able to sustain full employment regardless of the level of profit. The pre-stagflation stage should be approached by different kind of economic policy which entails such measures as: lowering interest rates, or demand management. In order to escape from the 'liquidity trap', Keynes accepted a type of investment which did not promise profit in itself. "If for whatever reason the rate of interest cannot fall as fast as the marginal efficiency of capital would fall with a rate of accumulation corresponding to what the community would choose to save at a rate of interest equal to marginal efficiency of capital in a conditions of full employment, then even a diversion of the desire to hold wealth towards assets, which will in fact yield no economic fruits whatever, will increase economic well-being. Insofar as millionaires find their satisfaction in building mighty mansions to contain their bodies when alive and pyramids to shelter them after death, or, repenting of their sins, erect cathedrals and endow monasteries or foreign missions, the day when abundance of capital will interfere with abundance of output may be postponed. To dig holes in the ground, paid for out of savings, will increase, not only employment, but the real national dividend of useful goods and services." (Keynes, 1964:214). For Keynes the policy of high interest rate in the phase of prosperity of an economy (the boom stage) was an insane and an unacceptable policy. "Thus an increase in the rate of interest, as a remedy for the state of affairs arising out of a prolonged period of abnormally heavy new investment, belongs to the species of remedy which cures the disease by killing the patient." (Keynes, 1964:220). Thus the remedy for the boom is not a higher, but a lower rate of interest. For that may enable the so-called boom to last. The right remedy for the trade cycle is not to be found in abolishing booms and thus keeping us permanently in a semi-slump; but in abolishing slumps and thus keeping us permanently in a quasi-boom." (Keynes, 1964:323). Thus, Keynes obviously pleaded for a such a change in socio-economic system which would be able to keep the system functioning. We find Keynes footnote on page 322 very significant in this regard. He wrote: "For, if we are precluded from making large changes in our present methods, I should agree that to rise the rate of interest during a boom may be, in conceivable circumstances, the lesser evil".

What Keynes really had in mind pointing out the need for changes is not too hard to detect if one carefully reads 'The General Theory' throughout. Keynes, we believe, demanded such changes in the socio-economic system which remind us today of ever louder claims of those who would like to guide the development of our present society in the direction of creation of what might be called a 'civil society'. A civil society requires co-existence of three economic sectors: private sector, public sector and the sector of civil economy. *In fact, the questions arise whether development of such a society could lead to a post-capitalist type of society?* (CEU Budapest organised summer schools along this line of thought in July 1998. CEU is organised and financed by Mr George Soros. A similar line of thought may be found for instance in D. Korten's book (Korten, 1996). The changes referred to by Keynes are due to the fact, as Marx said, that the overproduction that economists talk about, is not overproduction in terms of human needs of a society. The overproduction in question is an overproduction in terms of production which cannot be sustained for profit reasons alone. This is why neo-classical school and Keynes disagree and why monetarists plead for a high interest rate in the time of boom. Neo-classical economics seeks to re-create the climate for profit oriented investment accepting famous NIRA thesis and regardless of what that might mean in practice. (Just to mention a contrary example**.** In Bosnia and Herzegovina as well as in other so-called emerging market economies, former socialist countries, the remedy prescribed by the IMF starts from a high real interest rate as an anti-inflationary device in spite of the facts that the country has unemployment rate as high as 40 per cent and does not have inflation at all due to the currency board operation?! The country is not able, because it is too poor, to generate its own saving. Still, the IMF, following the monetarists' ideology, does not allow the country to resort to its own monetary and credit policy on the account of the fear of inflation.) *Keynes, on the contrary, would say that in a state of the economy is wiser to resort to the policy of printing money than to abide to the rigidly prescribed rules.*

6. Keynes and Marx on business cycle

Keynes was very much concerned with economic crises because he was afraid of such socio-economic changes which could lead to development of completely different type of society – socialism. Keynes explained economic crises as crises of insufficient demand but not in such a way as under-consumption had done before him. Investment consumption plays decisive role in Keynes's economic system. Investment consumption must compensate for insufficient personal consumption. Investment consumption (spending) could be influenced by monetary policy and interest rate policy. But, there is tendency for marginal efficiency of capital to decline. Marginal efficiency of capital declines due to: over-supply of capital, over-supply of goods, due to continuing price increase during the prosperity phase of business cycle, due to an increase of cost of production in the same time. Marginal efficiency of capital approaches the interest rate. Interest rate can never be equal to zero. If interest rate reaches zero, discount rate must be made to equal zero as well. Under such circumstances the internal rate of return must be zero, too. Keynes's view was *that the decline of marginal efficiency of capital is the main cause of economic* crises, i. e. e. *that it provokes trade cycle.*" By a cyclical movement we mean that as the system progresses in, e. g. the upward direction, the forces propelling it upwards at first gather force and have a cumulative effect on one another but gradually lose their strength until a certain point they tend to be replaced by forces operating in the opposite direction…. we mean also that there is some recognisable degree of regularity in the time-sequences and duration of the upward and down-ward movements... There is, however, another characteristic of what we call the Trade Cycle which our explanation must cover if it is to be adequate; namely, the phenomenon of the crisis - the fact that the substitution of a downward for an upward tendency often takes place suddenly and violently, whereas there is, as a rule, no such sharp turning-point when an upward is substituted for a downward tendency." (Keynes, 1964:322). Thus, according to Keynes, prosperity suddenly changes the face and it is violently converted into a crisis. The market mechanism does not function the other way around so quickly, if it does at all automatically. Keynes meant that crises are not caused by the rise in interest rates. Crises are a consequence of suddenly declining marginal efficiency of capital. "The later stages of the boom are characterised by optimistic expectations as to the future yield of capital-goods sufficiently strong to offset their growing abundance and their rising cost of production and, probably, a rise in the rate of interest also. It is of the nature of organised investment markets, under the influence of purchasers largely ignorant of what they are buying and of speculators who are more concerned with forecasting the next shift of market sentiment than with a reasonable estimate of the future yield of capital-assets, that, when disillusion falls upon an over-optimistic and over-bought market, it should fall with sudden and even catastrophic forces." (Keynes, 1964:314) "At the outset of the slump there is probably much capital of which the marginal efficiency has become negligible or even negative. But the interval of time, which will have to elapse before the shortage of capital through use, decay and obsolescence causes a sufficiently obvious scarcity to increase the marginal efficiency, may be a somewhat stable function of the average durability of capital in a given epoch. If the characteristics of the epoch shift, the standard time-interval will change." (Keynes, 1964:316).

In addition, duration of a slump has a definite relationship to the 'normal rate of growth in a given epoch" (Keynes, 1964:318). In time of the slump capital sells off. Goods are selling off regardless of prices. A decline of marginal efficiency of capital badly affects propensity to consume by both lowering drastically investment and firing workers. The Keynes's thinking could be considered as especially relevant for developed societies of today. "Serious drop in marginal efficiency of capital also tends to affect adversely the propensity to consume. For it involves a severe decline in the market value of Stock Exchange equities. Now, on the class who take an active interest in their Stock Exchange investment, especially if they are employing borrowed funds, this naturally, exerts a very depressing influence... With a 'stock-minded' public as in USA today, a rising stock market may be an almost essential condition of a satisfactory propensity to consume; and this circumstance, generally overlooked until lately, obviously serves to aggravate still further the depressing effect of a decline in the marginal efficiency of capital." (Keynes, 1964:318). Crises can not be softened by lowering interest rate. "I conclude that the duty of ordering the current volume of investment can not safely be left in private hands," wrote Keynes in his 'General Theory' (p. 320). According to Marx, the stage of *overproduction which we can call the stage of stagflation* (according to the full description of the stage expressed in "The Capital") converts into new stage of business cycle called a slump. A slump represents deep deflation. Precedent increase of prices, overproduction of goods or production of goods over the level of production which promises expected profit, must be lowered to the range of 'normal limits'. The process is painful one and expresses itself in drop of prices, drop of incomes, mass unemployment, and closure of companies. "*The value of commodities is sacrificed for the purpose of safeguarding the fantastic and independent existence of this value in money***.** As money-value, it is secure only as long as money is secure. For a few millions in money, many millions in commodities must therefore be sacrificed. This is inevitable under capitalist production and constitutes one of its *beauties."*(Marx, 1962:III 504)…The demand for means of payments is a mere demand for convertibility into money, so far as merchants and producers have good securities to offer; it is a demand for money-capital whenever there is no collateral, so that an advance of means of payments gives them not only the form of money but also the equivalent they lack, whatever it is form, with which to make payment… This is the point where both sides of the controversy on the prevalent theory of crises are at the same time right and wrong. Those who say that there is merely a lack of means of payment *(and we may say that Friedman viewed the causes of the Great Depression of 1929 in such a way-authors remark*) either have only the owners of bona fide securities in mind, *or they are fools who believe that it is the duty and power of banks to transform all bankrupt swindlers into solvent and respectable capitalists by means of peace of paper,"* (Marx, 1962, III:503). "Those who say that there is merely a lack of capital, are either just quibbling about words, since precisely at such times there is a mass of inconvertible capital as a result of over-imports and overproduction**,** or they are referring only to such cavaliers of credit who are now, indeed, placed in the position where they can no longer obtain other people's capital for their operations and now demand that the bank should not only help them to pay for the lost capital, but also enable them to continue with their swindles." (Marx, 1962, III:503). According to both Marx and Keynes, crises represent the process of capital depreciation. The process of depreciation of the value of capital creates a precondition for capital shortage and thus for an increase in its marginal efficiency. A crisis can hardly be avoided or made softer automatically by the automatic functioning of market forces. Under such circumstances the policy of interest rate increase could be particulate destructive. With his economic policy measures, Keynes wants to prevent crises. Therefore it is clear why he pleads for an expansive financial policy during the stage which precedes the crisis. He wants to convert the boom into a lasting quasi-boom. Keynes concluded his book by the following words: "Is the fulfilment of these ideas a visionary hope? Have they insufficient roots in the motives which govern evolution of political society? Are the interest which they will thwart stronger and more obvious than those which they will serve?" (Keynes, 1964:383).

7. Keynes on war and economic liberalism

"A new system might be more favourable to peace than the old has been. *War has several causes… but, over and above all else is the economic causes of war*, namely, population pressure and competitive struggle for markets. It is the second factor, which probably played a predominant part in the nineteenth century, and might again, that is relevant to this discussion… I pointed out in the preceding chapter that under the system of domestic laissez-faire and an international gold standard such as was orthodox in the latter half of the nineteenth century, there was no means open to a government whereby to mitigate economic distress at home except through the competitive struggle for markets…. *Thus, while economists were accustomed to applaud the prevailing international system as furnishing the fruits of the international division of labour and harmonising at the same time the interest of different nations, there lay concealed a less benign influence*; and those statesmen were moved by common sense and a correct apprehension of the true course of events, who believed that if a rich, old country were to neglect the struggle for markets its prosperity would drop and fail." (Keynes, 1964:382). What else on the theme concerning: market, competition, liberalism, wars, had already been said by Marx, Hilferding, Polany? Neo-classical, main-stream economist contends that world-wide free trade and world -wide laissez-faire are forging world peace today. Who will be proven right in this century?

8. Concluding remarks-questions to be answered

We live in the world in which Marx's economic ideas are dead, at least in the sense as he had been understood by most of his friends and enemies. Was he properly understood? Keynes was understood here and there both rightly and wrongly. Nowadays no one is Keynesian any more. This is why, besides other things, some neo-classical economists believe that Keynesian economics does not has microeconomic roots. Does it really have not ? What is the practical meaning of Keynesian terms like marginal efficiency of capital? Is the expression: marginal efficiency of capital similar to some extent to the Fisher's internal rate of return or to Tobin's coefficient 'Q'? Is the term related to micro or macroeconomics? What practical meaning do Marx terms - exchange value of labour and use value of labour – have? Could they be compared with the expressions: marginal product (revenue) of labour and marginal costs of labour? Do these terms have a common meaning from the standpoint of entrepreneurs? How then can microeconomic phenomenon transform itself to macroeconomic if they are not interconnected? And then, how can domestic macroeconomics transform itself into international macroeconomics? Do we get in both macroeconomics perspectives (national and international) full employment and equilibrium or we get increasing 'natural rate of unemployment' and possibility of serious disequilibrium? If we are close to observations provided by Marx and Keynes how then do we approach the possibility of a crisis solution? Do we try to redistribute present income within a country and between the countries worldwide? Do we change existing economic system domestically and internationally in the direction of developing 'civil society' which was not Keynes expression, but which is the expression used by George Soros.

Are we approaching the stage of economic development of developed countries which Marx described in the following words: 'As soon as formation of capital were to fall into the hands of a few established big capitals, for which the mass of profit compensates for the falling rate of profit, the vital flame of production would be altogether extinguished. It would die out... Development of productive forces of social labour is the historical task and justification of capital. This is just the way in which it unconsciously creates the material requirements of a higher mode of production." (Marx, 1962, III:254). At this point of rethinking the subject we would like to remind the reader of new super-mergers between giants banks like AMBRO and Barclay bank, expected to take place in 2007). What are the consequences of those mergers going to look like for world economy, on one side, and for national economies, on the other side?

Will the world proceed further on its development path following Hilferding's thinking or will we, finally, forge the lasting peace by applying the rules of neo-classical economics worldwide, and building up a highly global society ruled by one and democratic government? Should all of us today pay attention to the following

Keynes's words "Thus, while economists were accustomed to applaud the prevailing international system as furnishing the fruits of the international division of labour and harmonising at the same time the interests of different nations, they lay concealed a less benign influence; and those statement were moved by common sense and a correct apprehension of the true course of events, who believed that if reach, old country were to neglect the struggles for markets its prosperity would drop and fail" (Keynes, 1964:382). Finally, does not it seem that all schools of economic thought have something in common due to the fact that all of them have, so far, been tackling the same phenomenon - market economy? Where then, do differences between economists a come from and why? Can we explain a lot of disagreements in economics between economists by pragmatism and different ideologies? And if so, where are those ideologies leading us? Are we approaching a world economic system defined as one man one vote(Marx) or we are entering an economic and political system that could be identified as a system: one dollar one vote?

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Relevantnost ekonomske misli Marksa i Keynes-a za 21. stoljeće

Dragoljub Stojanov[1]

Sažetak

Rad se bavi istraživanjem validnosti ekonomske misli Marksa i Keynes-a za vrijeme u kojem živimo, tj. za XXI stoljeće. Na temelju usporedbe i analize Marksove i Keynes-ove ekonomske misli možemo zaključiti kako se ova dva giganta ekonomske znanosti gotovo ni u čemu ne razlikuju kada su u pitanju poimanja i interpretacije temeljnih mikroekonomskih i makroekonomskih fenomena. Marks i Keynes imaju određene ekonomske ideje slične neoklasičarima u sferi mikroekonomije. Oni se razlikuju znakovito od neoklasičara kada su u pitanju makroekonomska pitanja te njihove socio-ekonomske konsekvence. Obojica su predviđali ratove u budućnosti. Obojica su imali viziju novog glabaliziranog svijeta. Zbog toga mislimo da ova dva giganta ekonomske misli zavrjeđuju da se ponovno razmotre, tim više što svijet oko nas sve više podsjeća na njihova promišljanja.

Ključne riječi: *kriza, rad, profit, budućnost, liberalizam, sličnost*

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