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THE MODERN RELEVANCE OF POST KEYNESIAN ECONOMIC POLICIES

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INTRODUCTION

Post Keynesian economics attributes instabilities in the capitalist system to the behaviour of private investment and to a number of obstacles and constraints. Full-employment is very difficult to achieve in market economies, making it the exception rather than the rule. Even if it is achieved, it is unlikely to be sustained without government intervention, focused on the management of aggregate demand to achieve the growth required for full capacity utilisation. However, this potential role for government does not imply the existence in the abstract of a set of general prescriptions which can be applied in all circumstances and regardless of the specific prior macroeconomic experience of a given economy. Policy choice depends on concrete situations and here historical background as well as sociological characteristics matter crucially. Full-employment is not the only objective of post Keynesian economic policy. Governments should also strive to promote a more equal distribution of market power, income and wealth. For, as Keynes (1936) remarked, "The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes" (p. 372).

In reality, a completely free market system does not exist gvernment intervention and appropriate institutions have evolved with

the specific aim of reducing the fluctuations that are inherent in a 'free' market system. Some control of the capital accumulation process is an important policy implication of post Keynesian economics. Other economic policies, such as incomes policy, are also relevant. This paper attempts to demonstrate the potential of these *economic* policies along with a number of constraints and obstacles that may be present.

ECONOMIC POLICY IMPLICATIONS

We begin with the standard income identities expressing the deficit/surplus relationship between the various sectors of the economy:

$$(G-T) = (S_o-I_o) + (S_r-I_r) + (Q-X) \quad (1)$$

where the symbols have their usual meaning, that is G = government expenditure, T = taxes, S_o = savings of the oligopolistic sector, I_o = investment expenditure of the oligopolistic sector, S_r = savings of the rest of the economy, I_r = investment expenditure of the rest of the economy, Q = imports, and X = exports.

We now assume that expansion is initiated through an increase in government expenditure (or a reduction in taxes) to achieve full employment. The deficit faced by the government sector implies a surplus in either the oligopolistic sector or in the `rest of the economy', or a deficit in the foreign sector. This will constrain the growth rate of the economy, a consequence which can only be avoided if the government initiates further deficits. We therefore have a situation where the government sector must be prepared to tolerate mounting deficit and debt if the economy is to remain on a higher output growth path, a situation not likely to persist for very long.[2] If, however, the surplus sectors are prepared to increase their investment/output ratio, or reduce their saving/income ratio or both,

and/or the deficit in the foreign sector is somehow contained, then the higher growth rate could be maintained. In our analysis of this issue, we begin with the oligopolistic sector.

The Oligopolistic Sector

The required increase in the investment/output ratio could conceivably materialise if the oligopolistic sector perceives the deficit as causing favourable long-lasting effects on their sales. This possibility depends heavily on the assumption that the policy is perceived as correct (McCallum, 1983). For if the oligopolistic sector believes that any increase in government deficit completely crowds out business investment, there would be no revision of expectations, and the effect could be the reverse of what is required. When it comes to affecting volatile expectations, a continuous government presence might be more appropriate than periodic pump-priming action. Such presence would enable the government to influence growth expectations and thereby investment, although past experience such as with the UK National Plan and National Enterprise Board, or indeed, the French Indicative Planning, point to many difficulties, which must be acknowledged.

The obvious question to ask is whether there might exist any policy instruments which could conceivably be used to stimulate investment in the oligopolistic sector. Oligopolist investment is broadly immune to monetary policy changes given the self-financing nature of this sector and its insensitivity to interest rate movements. Asymmetric information can produce a substantial cost differential between internal and external finance due to high premia and credit rationing (Fazzari et al, 1988), which may force firms to rely overwhelmingly on internal finance. Given growth expectations, oligopolists will adjust their plant and equipment to maintain their market share, and for all intents and purposes they will do so regardless of the going rate of interest. The capital funds market can be avoided as pricing is used to finance investment (although it must be conceded that extremely high and abruptly rising interest rates are likely to have an impact, and

the UK experience of the 1980s and 1990s is relevant here). Fiscal measures are equally ineffective (Bosworth, 1985, for example), given the power and ability of corporations to shift taxes (Asimakopulos and Burbidge, 1974).

We consider the potential for reducing the saving/income ratio of the oligopolistic sector. Pricing in oligopolistic situations is set to yield a margin of revenues above costs sufficient to finance the anticipated level of investment over the current planning period. The revenues obtained over and above the sums set aside to cover costs constitute the savings of oligopolists. Amongst the number of variables that could influence the saving/income ratio, three are relevant to our discussion: price controls, corporate taxes and wage controls. Price controls are often dismissed as unworkable and ineffective. The main objection is that firms will come, sooner or later, to anticipate policies of controlling price increases, so that unless these policies refer to both incomes and prices they are likely to have an adverse effect on business confidence and investment. Price controls have also been shown to be ineffective in that their impact is `temporary' and `sporadic' (Coutts et al., 1978, p.24). The problems associated with changes in the quality and nature of products pose further problems when price controls prevail.

The second possibility is to employ corporate taxes to shift the savings curve downwards. It has been argued that increases in the tax burden on oligopolists are quickly passed on to the household sector in the form of higher prices. Empirical evidence suggests a great deal of `shifting' but on the question of full `tax shifting' the evidence is inconclusive. Coutts et al. (1978, p.96) suggest that within roughly three years, two thirds of direct tax adjustments are passed on to price-changes. Karier (1990) shows that `tax shifting' varies widely across different companies and for the same companies over time. Asimakopulos and Burbidge (1974), King (1975) and Beath (1979), argue that the full `tax shifting' hypothesis is confirmed; they assume that firms in oligopolistic industries set prices to maintain a target share of profits after tax.

A third area for consideration is control of wages. The problem here is how to determine that wage rate which would be consistent with an acceptable governmental deficit and oligopolistic sector surplus as well as with a particular growth rate and price level. There is no guarantee that such a wage rate exists, and yet if it does not, worrying problems can arise. Too low an average wage rate would not sustain the desirable growth rate. Too high a rate would leave the oligopolistic sector short of funds to undertake the necessary amount of investment, in which case prices will move upwards, initiating a wage-price inflation spiral. Such a sequence of events clearly implies that some form of control of wages and prices may be necessary.

We may turn our attention now to the other surplus sectors, and consider the non-oligopolistic sector first.

The Non-Oligopolistic Sector

The sensitivity of investment and savings to aggregate demand in this sector is rather greater than in the oligopolistic sector. The savings relationship is less sensitive to fluctuations in the income growth rate than in the oligopolistic case. This is because the savings in the non-oligopolistic sector are likely to be transferred at an increasing rate to the owner(s) of the firm and thus to the household sub-sector. The savings relationship for this sector is thus practically horizontal.

The investment relationship, however, is more sensitive to changes in the growth rate of output than in the oligopolist sector. Normally in the non-oligopolistic sector there is no excess capacity, which implies that any expansion of the growth rate of output must be associated with price-level increases. Given total costs, the gap between total revenue and cost widens, causing new firms to enter the industry. Total investment in the sector will therefore expand until supply constraints in the capital goods industry precipitate a collapse

of the investment boom. Output then becomes insufficient to sustain high growth rates and a contractionary process follows, ending when investment reaches zero. It follows that on this analysis the non-oligopolistic sector goes through periods of alternating boom and contraction. This instability, however, is unlikely to prevail throughout the economy given the small fraction of total investment accounted for by this sector. This sector, however, is expected to be more sensitive to policy measures than the oligopolistic sector (Bosworth, 1985), given its small share of market power (and thus inability to shift taxes), exposure to, and associated difficulties with access to, external finance. These problems are compounded by the existence of asymmetric information and the likelihood of large premia and credit rationing (Fazzari et al, 1988).

The Personal Sector

Investment in this sector (in consumer durables as well as residential construction) is presumed to be less volatile than savings, since, as growth proceeds, the marginal propensity to save is likely to increase. Both savings and investment are essentially determined by the growth of income and output, which implies that when the government sector sustains a deficit, the personal sector is unlikely to alleviate it. This sector, however, is sensitive to economic policy. Given its exposure to external finance, the personal sector could potentially be affected by monetary policy, but the degree of impact is difficult to specify in view of the indeterminate relative strength of substitution and income effects of monetary policy changes. The impact of fiscal measures, by contrast, is thought to be more powerful in view of imperfect credit markets and liquidity constraints which limit the ability of consumers to borrow to finance consumption (Cambell and Mankiw, 1991).

It is, therefore, conceivable that fiscal policy, in the form of higher taxes, could eliminate the surplus of the personal sector. However, the wage-price inflation spiral is particularly important for

the personal sector in that, when it arises, it could create a further surplus, in addition to that of the oligopolistic business sector. This takes us straight to the need for control of wages and prices in the shape of an `incomes' policy. The overall conclusion must be that mounting deficits initiated by the government in an attempt to push the economy onto a higher growth rate, cannot be alleviated by the behaviour of the non-oligopolistic sectors. Nor can policy instruments alleviate the situation, other than by distorting the pattern of inter-sectoral growth in favour of the oligopolistic sector. This is especially true in the case of monetary policy which is expected to have significant distributional implications in favour of the oligopolistic sector. Fiscal policy instead exerts substantial direct effects on the personal sector only.

The Foreign Sector

Turning to the foreign sector, equation (1) is a vivid reminder that a budget deficit will result in a deficit in the balance of trade, if the surplus of the private sector is small and changes slowly and predictably. Unless capital inflows are attracted by growth prospects, a balance-of-payments crisis could ensue. Expansionary policies would have then to be reversed, producing the familiar scenario of `stop-go'. This difficulty may arise from the inability of the economy to respond to increased demand well before full employment is reached, as a result of a number of difficulties. These include poor research and development, inadequate excess capacity, lack of training and skill in the labour force, lack of high educational standards and consequently lack of expertise and talent and thus absence of innovation which is so vital to boost investment.

Expansionary policies cannot be effective for long unless they are accompanied by policies to tackle the balance-of-trade constraint. Manipulating the exchange rate for this purpose may not always work since devaluation can raise the level of output, employment and income and lead to a rise in imports that may well

be equal to the increase in exports resulting from devaluation.[3] To remove the balance-of-payments constraint, the creation of sufficient productive capacity through investment is required, especially in the manufacturing sector (Cosh et al., 1995). Substantial investment in productive capacity is also necessary to remove the surplus in the other sectors examined above, and by this means produce a major reduction in unemployment (Rowthorn, 1995). An industrial policy geared towards expanding capacity is as critically important as when a Director of the National Economic Development Office wrote that "Only the government can be relied upon to concern itself with the survival of a modern and relevant industrial base" (Stout, 1981, p. 123).

INCOMES POLICIES AND SOCIALISATION OF INVESTMENT

Our discussion and analysis so far suggest two types of policies: incomes policies and some form of industrial policy aimed at stimulating investment. Incomes policies might have a reasonable chance of success if applied to all forms of incomes without freezing the distribution of income, and were accepted rather than imposed. They must be seen to be fair, involve over time progressive redistribution of income and not merely be a device for reducing labour's income share. They also need the support of the trade unions and other economic groups. Such policies imply that non-governmental agents would have a substantial role to play in the formation of overall economic strategy. There are problems with this particular policy prescription. Firstly, the application of incomes policies to *all* forms of incomes is precisely what leads to their failure. One fundamental difficulty in this context is the measurement of productivity in some sectors, with the service sector being the obvious example. A further problem might be more serious. The decrease in S_o needed to achieve full employment implies that firms would be operating in the peak capacity range. But once firms are

convinced that the output growth rate has been raised, they will surely wish to return to a lower rate of capacity utilization so as to maintain entry barriers. Restoring excess capacity, however, will involve a rise in the investment function, which would be difficult to fund, given problems with credit availability at this phase of the cycle. Furthermore, as growth increases, the incremental capital output ratio will tend to rise if capital goods are produced with more capital-intensive technology than aggregate output, since the increase in the proportion of capital goods in total output will raise the aggregate incremental capital output ratio directly. Firms will thus be caught between a decrease in S_o and an increase in I_o, caused by the necessity to maintain expenditures aimed at securing market dominance (Arestis and Driver, 1984).

Incomes policies may, therefore, be an inadequate instrument to persuade market leaders to raise their investment output ratios. They may prefer a short period at peak capacity rather than commit themselves to faster secular growth by releasing their surpluses. Initiating fast sustained growth could lose market share for the dominant firms, given the fuller utilization levels it would imply. Caution on the part of the market leaders would be reinforced by the prospect that future governments, uncommitted to maintaining profitability, might be in power during the critical payback period of the investments. The experiences in the UK of 1963, 1972 and the late 1980s testify to the reluctance of industry to risk responding to consumer-led booms either with sustained capital investment or price restraint. It is doubtful that such behaviour could be changed drastically purely by a putative incomes agreement.

The other economic policy envisaged is industrial policy. The form such policy might take would vary, depending on historical and social experiences along with institutional and sociological characteristics (witness the examples of S. Korea, Japan, Germany, Sweden etc). One suggestion which sits comfortably with the analysis pursued in this paper is socialisation of investment, which was one of Keynes's (1936) policy prescriptions. This can be ascertained from his

suggestion that "a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full-employment; though this need not exclude all manner of compromises and of devices by which public authority will co-operate with private initiative" (p.378). In Keynes (1980b) this notion was made more explicit when he called for two-thirds to three-quarters of total investment in the economy, representing 7.5 per cent to 20 per cent of net national income, to be influenced by public or semi-public bodies, whose activities would be guided by `private exchange' and `technically social' motives (pp. 322-323). Such a stable long-term programme "should be capable of reducing the potential range of fluctuations to much narrower limits than formerly, when a smaller volume of investment was under public control and when even this part tended to follow, rather than correct, fluctuations of investment in the strictly private sector" (op. cit., p. 322). In this way socialisation of investment fills the gap left by private investors and encourages more private investment by reducing uncertainty through the creation of a more stable environment.

Socialisation of investment constitutes a long-term policy and views the state as a direct player in investment activity. The precise mechanism for its implementation remains unspecified, although three contenders exist. The first emanates from Keynes's (1982) reference to the establishment of a National Investment Board (NIB) which would aim to achieve full employment by strategically regulating the aggregate flow of investment through pooling and diverting the funds accumulated in the hands of socialised public and semi-public bodies. The NIB would ensure "an adequate demand for them, partly by making them available at a rate which would attract a sufficient demand and partly by stimulating the undertaking of particular investment propositions" (op. cit., p. 137). A slight variant on this interpretation is the employee investment funds idea as applied in Sweden (Arestis, 1986).

The second interpretation also emanates from Keynes's writings and sees a separate `capital budget' for government,

distinguishing sharply between investment and consumption expenditures (see, for example, Kregel, 1985). Government should aim to produce surpluses in the ordinary budget which are then "transferred to the capital Budget, thus gradually replacing dead-weight debt by productive or semi-productive debt", and at full employment cyclical fluctuations should not be compensated "by means of the ordinary Budget". This role should be undertaken by the capital budget (Keynes, 1980b, pp. 277-278). This interpretation of socialisation of investment is concerned with the composition of government expenditures and not with any increase in the share of government expenditures out of total expenditure in the economy. At the same time, though, public capital expenditure should be sufficient to enable government to stabilise aggregate investment spending over the business cycle. Keynes (1936) is explicit on this point when he suggests that "State action enters in as a balancing factor to provide that the growth of capital equipment shall be such as to approach saturation-point at a rate which does not put a disproportionate burden on the standard of life of the present generation" (p. 220). This proposal is radically different from the NIB interpretation. Unlike the latter it does not entail public ownership of any means of production. But in neither case comprehensive owenership was implied. Keynes (1936) was clear when he argued that "no obvious case is made out for a system of State Socialism which would embrace most of the economic life of the community" (p.378).

The third interpretation of socialisation of investment is the idea of `industrial economic regulation' which implies a long-term perspective and aims at economic regulation to foster industrial development through "public investment in an extended infrastructure fuelling endogenous development via supportive services" (Cowling and Sugden, 1993, p. 84). The imperative for government to adopt such a role is based on the analysis expounded above and on three additional sets of systemic deficiencies (Cowling, 1990): multinationalism (multinational corporations dominate economies and

impose their strategies upon them, so that the economies' development is threatened), centripetalism (the tendency for higher economic and other activities to gravitate to the centre and away from the periphery), and short-termism (due to the short-term pursuit of profits, a problem particularly acute in the case of multinational corporations). In seeking to tackle these deficiencies, government should adopt a `developmental' role, in that it should actively promote an appropriately `democratic market structure' in concert with the interest groups involved, especially employees. The example of co-operatives in which the workforce actively participates in their affairs is a point in case (Cowling and Sugden, 1993, p. 89). This role should include restructuring of the financial system to provide the main source of corporate finance and thus encourage and promote long-termism, possibly through a national bank (Kitson and Michie, 1996).

The precise form `industrial economic regulation' might take depends on the structure of the economy in question. The Japanese and East Asian models, and the `social corporatist' countries of Europe which have implemented successfully these type of policies, have developed different institutional frameworks in their attempts to restructure their economies. In this process the critical role of the financial sector in determining the ability to restructure the industrial sector cannot be exaggerated, as the experience with large banks in Germany, France, and Japan, amongst other countries, testifies. For, the institutional structure of an economy affects the impact of a given policy and the same policy could have differential effects when applied to countries with different institutional structure (for similar views, see, for example, Eichengreen, 1996).

The problem with Keynes's socialisation of investment, is that it cannot really be effective, as it excludes from the socialisation process the participation of interest groups, crucially trade union involvement and co-operation, which is, we would argue, the *sine qua non* of its success (although this is more serious in the second interpretation). In this sense the third interpretation constitutes

progress on Keynes's (1936) socialisation of investment. Trade unions, however, would be far more likely to co-operate if they were to be involved in collective bargaining, which in turn, is predicated upon a firm commitment to full-employment. Such social compromise is likely to endure if there is successful economic restructuring, of the type described here. Unemployment has been lower in those countries (Austria, Finland, Norway and Sweden) where commitment to full employment has been part of a broad consensus between trade unions, industry and the state (Glyn and Rowthorn, 1988). Furthermore, those countries which practice collective bargaining, either centralised or decentralised but with co-ordinated industrial relations, have a superior pay/jobs trade off (Soskice, 1990; Rowthorn, 1992). Cross-section evidence suggests a positive relationship between collective bargaining and investment, whilst time-series analysis provides no evidence of unionisation adversely affecting investment (Metcalf, 1993).

Under decentralised bargaining `outside' influence is reduced. Holmlund and Zetterberg (1991) found that, in comparison to Norway, Sweden, Finland and Germany, industrial wage-setting in the US was considerably less dependent on outside economy-wide influences, and much more dependent on price and productivity conditions within industries. In fact, in the Scandinavian countries, `insider' influences on wage levels were negligible. Evidence for the US, UK and Japan seems to suggest that decentralised wage bargaining increases the influence of intra-firm productivity and profit trends and allows some workers to rent-share where their employers operate in imperfect product markets. This implies that decentralisation favours a small minority of workers at the expense of the majority, enhancing wage dispersion and harming industrial relations. Rowthorn (1992) supports this view and offers evidence which shows that centralised collective bargaining, as in the Nordic countries, is associated with low wage dispersion and better employment prospects.

POTENTIAL CONSTRAINTS AND OBSTACLES TO ECONOMIC POLICY

Post Keynesian economic policy analysis recognises that there are obstacles to interventionist policies of this type. Political and social pressures impose significant constraints on the achievement of these objectives. Kalecki (1943) was sceptical about permanent full employment because unemployment had an essential disciplinary role. Although governments could gear the economy to full employment, the `power of vested interests' with their dislike of government interference in the private sector, would not allow it. Kaldor (1983) gave further support to these ideas; he contended that the changes in the power structure of society, which came about as a result of Keynesian economic policies, were responsible for the antagonism towards these ideas. As an example of pressures against certain economic policies, Kaldor (1982, p. xxi) refers to the early post-war cheap-money policies to which the banks and financial institutions in the City objected, calling for a more `active' monetary policy on the usual grounds of `sound money'.

A different type of constraint is emphasised in the contributions of Myrdal (1957), namely the theory of `circular and cumulative causation'. This is based on the dynamic interplay between investment and productivity growth, which reinforces inequalities and regional disparities. `Cumulative causation' in economic terms generates inequalities in non-economic terms, such as political power, cultural domination etc. Those regions which are relatively rich dominate, not just in the economic power sense, but also in terms of their ability to exert political superiority. They are in a position to impose their policy preferences and culture on less powerful regions, so that the institutions of the latter are under severe threat. The policy implication of this model is intervention at a regional level, which can be promoted through assistance to companies to locate production in depressed areas and through financial centres in the form of regional banking.

Given that these policies rely heavily on social co-operation and social consensus, a further problem is achieving agreement between the state, industry and labour. The conspicuous success of some countries with economic policies that relied on consensus (Sweden, Norway, Australia and Austria) is encouraging.[4] Indeed, there exists overwhelming evidence which suggests that increased participation is one of the dominant determinants of productivity, and that firms which involve workers in decision-making experience superior profitability, sales, growth, and better performance overall than similar firms which do not pursue policies of this nature (Knight and Sugden, 1989). However, in those economies where consensus has been delayed by actual government policies, the UK being a good example, post Keynesian alternatives have the additional and difficult task to recreate it. This suggests that industrial policies as well as operating to achieve macroeconomic objectives, must also encourage economic activity to develop at regional and local level involving genuine community participation (Cowling and Sugden, 1993).

There is still the serious constraint imposed on these policies by the operation of transnational corporations and international financial capital. The operations of transnationals in the short-run could jeopardise expansion, and UK experience indicates that this possibility is very real. In the long run it is expected that these firms would undertake a greater volume of investment once the economy has achieved a sustained expansionary path. In the short run, however, control over the operations of transnational corporations would have to be established. Fiscal measures could be used to promote domestic rather than foreign investment, although the evidence here is that transnationals could easily overcome measures of this type. The experience of other countries is revealing. Japan, the USA, France, Canada and most notably a number of developing countries, have all adopted policies towards transnationals. These have ranged from monitoring their activities and taking positive steps to discriminate in favour of domestic firms where there were fears of

multinational dominance, to more tight and direct regulation on their activities. Sugden (1989) suggests that a *transnational unit* with sufficient muscle to enable it to be active enough to monitor the activities of transnationals is paramount. Most importantly it would scrutinise their investment activity, including both inward and outward investment, whenever it exceeds a pre-specified size. This monitoring should then become part of overall strategic planning (Cowling, 1987).

Similarly, policy-makers can, and should, attempt to have an impact on the regulation of international financial capital and trade flows. Keynes (1980b, p.52) envisaged strict capital controls to deal with situations in which the centres of international financial capital became untameable. He argued that capital controls, both inward and outward, should be permanent. Also permanent, in his view, should be the control of the entire financial system. Indeed Keynes (1980b) went as far as to propose extending the idea of planning to embrace the whole of the international economic system. Hicks (1985) reinforces these views by advocating concerted action by a number of the more `important' countries, and Tinbergen (1989) concurs, proposing close co-operation between the European Union (EU) and Japan.

The prospect of success of adopting capital controls for countries like the UK would be enhanced if such measures were taken at the European level. The recent proposal (Arestis, 1993; Arestis and Sawyer, 1996) for a *European Clearing Agency* (ECA), in place of the European System of Central Banks, is extremely relevant in this context.[5] It is predicated on the achievement of high levels of economic activity and full employment, based on the construction of a suitable EU financial system, the core element of which is a fixed, but adjustable, exchange rate system. Another proposal which sits comfortably with the idea of ECA is that of taxes on foreign exchange transactions to contain speculative capital movements (see, for example, Eichnergreen, Tobin and Wyplosz, 1995). In the absence of financial costs in the transfer of funds from one currency to another, even a minimal prospect of devaluation can precipitate a

crisis by causing a large-scale shift out of the troubled currency. A transaction tax increases the required interest rate differential necessary to spark off speculation, and can help contain it. There is the obvious advantage of this tax being a source of government revenue, but the transaction tax should essentially contribute to an orderly realignment of currencies when necessary. However, the possibility always exists that such a tax could potentially be passed on by speculators, and that a tax on spot transactions could lead to foreign exchange transactions driven offshore. To be effective a transaction tax would need to cover wide grouping of countries than just the EU, and might be successful only under the aegis of a revamped international monetary system.

These measures, especially those taken in collaboration with other countries or groups of countries, have assumed more significance in those countries where international capital has taken a new twist. For example in the UK, what has apparently happened is that there has been a new form of internationalisation of the City of finance capital, coinciding with, or perhaps induced by, the internationalisation of British industrial capital. These developments have been taking place over the last ten years or so, since the abolition of exchange and credit controls initiated at the beginning of the 1980s. The interesting implication of these developments is that whilst the interests of finance capital and those of domestic industrial capital do not coincide, those of finance capital and international capital are so tightly linked that the power of the latter is stronger than otherwise Radice, 1989). The problem of controlling the activities of international capital, both industrial and financial, in the new environment becomes even more awkward when attempted in isolation. Globalisation has undermined the economic and political basis for effective economic policies at the level of individual economies, but at the same time it has created the impetus for a genuine internationalist programme. The inevitable conclusion is that there may be no alternative to policies being explicitly and firmly `internationalist' (Harcourt,1994); we may label it `global Keynesianism'.

SUMMARY AND CONCLUSIONS

The major policy implication of post Keynesian thinking is a combination of socialisation of investment with a `social contract' among the three key groups in any economic system: trade unions, industry and the state. In this environment wage pressures that damage profitability and accumulation can be avoided, especially if there is a commitment to full employment by governments. These policies should be accompanied by appropriate industrial policies which would promote active participation of the trade union movement. However, some social control of multinationals and international capital is essential to any post Keynesian strategy.

The approach of this paper is in the spirit of economic analysis and economic policies advocated by Keynes (1936, 1980a, 1980b), Kalecki (1971) and other influential post Keynesians. It is based on an agenda which takes cooperation to be more constructive than competition. The economic policy implications of this approach are as relevant to day as they have always been, and they can be defended as being both "the only practicable means of avoiding the destruction of existing economic forms in their entirety and as the condition of the successful functioning of individual initiative" (Keynes, 1936, p. 380).

FOOTNOTES

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1. Despite attempts in certain countries to `roll back the frontiers of the State' (the UK in the 1980s is a good example), the trend in the twentieth century has been for more government intervention. Sawyer (1989, p.302) argues that this trend continued even in the 1980s: on a crude indicator such as public expenditure as a percentage of GDP, it is shown that for a range of developed capitalist countries this ratio has increased in each of the decades since the 1950s and for all countries considered, the ratio being at its highest in the 1980s. Intervention ranges from facilitating industrial development through subsidies and tax concessions, to direct involvement in the process of capital accumulation and public ownership of key industries.

2. A budget deficit is seen as unsustainable if it leads to a spiralling national debt to GDP ratio. However, so long as the growth rate of the economy exceeds the post tax rate of interest (in either nominal or real terms), budget deficits do not lead to a rising debt to GDP ratio (Arestis and Sawyer, 1996). The difficulty for budget deficits which has arisen in recent years is simply that real rates of interest have been at historically unprecedently high levels whilst economic growth has been sluggish. These high interest rates are attributable to the pursuit of tight monetary policies aimed at dampening down inflation. We would also make the obvious point that insofar as the budget deficit is in effect mopping up any excess of private savings over investment, then the Keynesian alternative to running a deficit would be the stimulus of investment and the

discouragement of savings.

3. The view has been put forward (Cripps and Godley, 1978, for example) that the authorities should impose `import controls' in an environment of `managed' international trade. In view of the recent global and European developments in particular, the policy of žimport controls' has lost a great deal of its attraction. It can be argued, however, that `managed' international trade can potentially be initiated at the level of the EU as a whole, thereby invigorating the case for import controls.

4. The case of Sweden is very interesting in that although economic policies of the type discussed here were successful for a long period, they appeared recently to work less than satisfactory. The problems of the Swedish model may not be entirely due to weaknesses of corporatism but to mistakes in the conduct of macroeconomic policy by the government in response to the globalisation of the economy.

5. The ECA proposal is firmly rooted in Keynes's (1980a) *International Clearing Union* and, more so, in Davidson's (1992/93) *International Money Clearing Unit*. The latter is in the spirit of Keynes but without the requirement of an international central bank.

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