Political Aspects of Full Employment

BY
MICHAŁ KALECKI

Why do capitalists hate full employment? Because it weakens their power over workers.

Recent proposals from Bernie Sanders and others for a national job guarantee program have placed full employment — once a central focus of political debate throughout the industrialized world — back on the agenda. But full employment is more than a technical policy question. It touches on the most sensitive political contradiction in a capitalist society: the balance of power between labor and capital.

One of the first authors to explore these dynamics was the Polish economist Michal Kalecki in his classic 1943 essay "Political Aspects of Full Employment." Writing at a moment when the insights of the new Keynesian economics were just beginning to penetrate Western political discussion, Kalecki warned that sustaining full-employment economic policies after the war would require overcoming formidable political obstacles from capitalists and their political representatives.

Full employment, Kalecki wrote,

> would cause social and political changes which would give a new impetus to the opposition of the business leaders. The "sack" would cease to play its role as a disciplinary measure. The social position of the boss would be undermined, and the self-assurance and class-consciousness of the working class would grow. . . . "Discipline in the factories" and "political stability" are more appreciated than profits by business leaders. Their class instinct tells them that lasting full employment is unsound from their point of view, and that unemployment is an integral part of the "normal" capitalist system.

We present the complete text of Kalecki's prescient analysis, below.

A solid majority of economists is now of the opinion that, even in a capitalist system, full employment may be secured by a government spending program, provided there is in existence an adequate plan to employ all existing labor power, and provided adequate supplies of necessary foreign raw materials may be obtained in exchange for exports.

If the government undertakes public investment (e.g. builds schools, hospitals, and highways) or subsidizes mass consumption (by family allowances, reduction of indirect taxation, or subsidies to keep down the prices of necessities), and if, moreover, this expenditure is financed by borrowing and not by taxation (which could affect adversely private investment and consumption), the effective demand for goods and services may be increased up to a point where full employment is achieved. Such government expenditure increases employment, be it noted, not only directly but indirectly as well, since the higher incomes caused by it result in a secondary increase in demand for consumer and investment goods.

It may be asked where the public will get the money to lend to the government if they do not curtail their investment and consumption. To understand this process it is best, I think, to imagine for a moment that the government pays its suppliers in government securities. The suppliers will, in general, not retain these securities but put them into circulation while buying other goods and services, and so on, until finally these securities will reach persons or firms which retain them as interest-yielding assets. In any period of time the total increase in government securities in the possession (transitory or final) of persons and firms will be equal to the goods and services sold to the government. Thus what the economy lends to the government are goods and services whose production is "financed" by government securities. In reality the government pays for the services, not in securities, but in cash, but it simultaneously issues securities and so drains the cash off; and this is equivalent to the imaginary process described above.

What happens, however, if the public is unwilling to absorb all the increase in government securities? It will offer them finally to banks to get cash (notes or deposits) in exchange. If the banks accept these offers, the rate of interest will be maintained. If not, the prices of securities will fall, which means a rise in the rate of interest, and this will encourage the public to hold more securities in relation to deposits. It follows that the rate of interest depends on banking policy, in particular on that of the central bank. If this policy aims at maintaining the rate of interest at a certain level, that may be easily achieved, however large the amount of government borrowing. Such was and is the position in the present war. In spite of astronomical budget deficits, the rate of interest has shown no rise since the beginning of 1940.

It may be objected that government expenditure financed by borrowing will cause inflation. To this it may be replied that the effective demand created by the government acts like any other increase in demand. If labor, plants, and foreign raw materials are in ample supply, the increase in demand is met by an increase in production. But if the point of full employment of resources is reached and effective demand continues to increase, prices will rise so as to equilibrate the demand for and the supply of goods and services. (In the state of over-employment of resources such as we witness at present in the war economy, an inflationary rise in prices has been avoided only to the extent to which effective demand for consumer goods has been curtailed by rationing and direct taxation.) It follows that if the government intervention aims at achieving full employment but stops short of increasing effective demand over the full employment mark, there is no need to be afraid of inflation.

The above is a very crude and incomplete statement of the economic doctrine of full employment. But it is, I think, sufficient to acquaint the reader with the essence of the doctrine and so enable him to follow the subsequent discussion of the *political* problems involved in the achievement of full employment.

It should be first stated that, although most economists are now agreed that full employment may be achieved by government spending, this was by no means the case even in the recent past. Among the opposers of this doctrine there were (and still are) prominent so-called "economic experts" closely connected with banking and industry. This suggests that there is a political background in the opposition to the full employment doctrine, even though the arguments advanced are economic. That is not to say that people who advance them do not believe in their economics, poor though this is. But obstinate ignorance is usually a manifestation of underlying political motives.

There are, however, even more direct indications that a first-class political issue is at stake here. In the Great Depression in the 1930s, big business consistently opposed experiments for increasing employment by government spending in all countries, except Nazi Germany. This was to be clearly seen in the USA (opposition to the New Deal), in France (the Blum experiment), and in Germany before Hitler. The attitude is not easy to explain. Clearly, higher output and employment benefit not only workers but entrepreneurs as well, because the latter's profits rise. And the policy of full employment outlined above does not encroach upon profits because it does not involve any additional taxation. The entrepreneurs in the slump are longing for a boom; why do they not gladly accept the synthetic boom which the government is able to offer them? It is this difficult and fascinating question with which we intend to deal in this article.

The reasons for the opposition of the "industrial leaders" to full employment achieved by government spending may be subdivided into three categories: (1) dislike of government interference in the problem of employment as such; (2) dislike of the direction of government spending (public investment and subsidizing consumption); (3) dislike of the social and political changes resulting from the *maintenance* of full employment. We shall examine each of these three categories of objections to the government expansion policy in detail.

We shall deal first with the reluctance of the "captains of industry" to accept government intervention in the matter of employment. Every widening of state activity is looked upon by business with suspicion, but the creation of employment by government spending has a special aspect which makes the opposition particularly intense. Under a laissez-faire system the level of employment depends to a great extent on the so-called "state of confidence." If this deteriorates, private investment declines, which results in a fall of output and employment (both directly and through the secondary effect of the fall in incomes upon consumption and investment). This gives the capitalists a powerful indirect control over government policy: everything which may shake the state of confidence must be carefully avoided because it would cause an economic crisis. But once the government learns the trick of increasing employment by its own purchases, this powerful controlling device loses its effectiveness. Hence budget deficits necessary to carry out government intervention must be regarded as perilous. The social function of the doctrine of "sound finance" is to make the level of employment dependent on the state of confidence.

The dislike of business leaders for a government spending policy grows even more acute when they come to consider the objects on which the money would be spent: public investment and subsidizing mass consumption.

The economic principles of government intervention require that public investment should be confined to objects which do not compete with the equipment of private business (e.g. hospitals, schools, highways). Otherwise the profitability of private investment might be impaired, and the positive effect of public investment upon employment offset, by the negative effect of the decline in private investment. This conception suits the businessmen very well. But the scope for public investment of this type is rather narrow, and there is a danger that the government, in pursuing this policy, may eventually be tempted to nationalize transport or public utilities so as to gain a new sphere for investment.

One might therefore expect business leaders and their experts to be more in favor of subsidizing mass consumption (by means of family allowances, subsidies to keep down the prices of necessities, etc.) than of public investment; for by subsidizing consumption the government would not be embarking on any sort of enterprise. In practice, however, this is not the case. Indeed, subsidizing mass consumption is much more violently opposed by these experts than public investment. For here a moral principle of the highest importance is at stake. The fundamentals of capitalist ethics require that "you shall earn your bread in sweat" — unless you happen to have private means.

We have considered the political reasons for the opposition to the policy of creating employment by government spending. But even if this opposition were overcome — as it may well be under the pressure of the masses — the *maintenance* of full employment would cause social and political changes which would give a new impetus to the opposition of the business leaders. Indeed, under a regime of permanent full employment, the "sack" would cease to play its role as a disciplinary measure. The social position of the boss would be undermined, and the self-assurance and class-consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tension. It is true that profits would be higher under a regime of full employment than they are on average under laissez-faire, and even the rise in wage rates resulting from the stronger bargaining power of the workers is less likely to reduce profits than to increase prices, and thus adversely affects only the rentier interests. But "discipline in the factories" and "political stability" are more appreciated than profits by business leaders. Their class instinct tells them that lasting full employment is unsound from their point of view, and that unemployment is an integral part of the "normal" capitalist system.

One of the important functions of fascism, as typified by the Nazi system, was to remove capitalist objections to full employment.

The dislike of government spending policy as such is overcome under fascism by the fact that the state machinery is under the direct control of a partnership of big business with fascism. The necessity for the myth of "sound finance," which served to prevent the government from offsetting a confidence crisis by spending, is removed. In a democracy, one does not know what the next government will be like. Under fascism there is no next government.

The dislike of government spending, whether on public investment or consumption, is overcome by concentrating government expenditure on armaments. Finally, "discipline in the factories" and "political stability" under full employment are maintained by the "new order," which ranges from suppression of the trade unions to the concentration camp. Political pressure replaces the economic pressure of unemployment.

The fact that armaments are the backbone of the policy of fascist full employment has a profound influence upon that policy's economic character. Large-scale armaments are inseparable from the expansion of the armed forces and the preparation of plans for a war of conquest. They also induce competitive rearmament of other countries. This causes the main aim of spending to shift gradually from full employment to securing the maximum effect of rearmament. As a result, employment becomes "over-full." Not only is unemployment abolished, but an acute scarcity of labor prevails. Bottlenecks arise in every sphere, and these must be dealt with by the creation of a number of controls. Such an economy has many features of a planned economy, and is sometimes compared, rather ignorantly, with socialism. However, this type of planning is bound to appear whenever an economy sets itself a certain high target of production in a particular sphere, when it becomes a target economy of which the armament economy is a special case. An armament economy involves in particular the curtailment of consumption as compared with that which it could have been under full employment.

The fascist system starts from the overcoming of unemployment, develops into an armament economy of scarcity, and ends inevitably in war.

What will be the practical outcome of the opposition to a policy of full employment by government spending in a capitalist democracy? We shall try to answer this question on the basis of the analysis of the reasons for this opposition given in section II. We argued there that we may expect the opposition of the leaders of industry on three planes: (1) opposition on principle to government spending based on a budget deficit; (2) opposition to this spending being directed either towards public investment — which may foreshadow the intrusion of the state into the new spheres of economic activity — or towards subsidizing mass consumption; (3) opposition to *maintaining* full employment and not merely preventing deep and prolonged slumps.

Now it must be recognized that the stage at which "business leaders" could afford to be opposed to *any* kind of government intervention to alleviate a slump is more or less past. Three factors have contributed to this: (1) very full employment during the present war; (2) development of the economic doctrine of full employment; (3) partly as a result of these two factors, the slogan "Unemployment never again" is now deeply rooted in the consciousness of the masses. This position is reflected in the recent pronouncements of the "captains of industry" and their experts. The necessity that "something must be done in the slump" is agreed; but the fight continues, firstly, as to *what* should be done in the slump (i.e. what should be the direction of government intervention) and secondly, that it should be done *only* in the slump (i.e. merely to alleviate slumps rather than to secure permanent full employment).

In current discussions of these problems there emerges time and again the conception of counteracting the slump by stimulating private investment. This may be done by lowering the rate of interest, by the reduction of income tax, or by subsidizing private investment directly in this or another form. That such a scheme should be attractive to business is not surprising. The entrepreneur remains the medium through which the intervention is conducted. If he does not feel confidence in the political situation, he will not be bribed into investment. And the intervention does not involve the government either in "playing with" (public) investment or "wasting money" on subsidizing consumption.

It may be shown, however, that the stimulation of private investment does not provide an adequate method for preventing mass unemployment. There are two alternatives to be considered here. (1) The rate of interest or income tax (or both) is reduced sharply in the slump and increased in the boom. In this case, both the period and the amplitude of the business cycle will be reduced, but employment not only in the slump but even in the boom may be far from full, i.e. the average unemployment may be considerable, although its fluctuations will be less marked. (2) The rate of interest or income tax is reduced in a slump but not increased in the subsequent boom. In this case the boom will last longer, but it must end in a new slump: one reduction in the rate of interest or income tax does not, of course, eliminate the forces which cause cyclical fluctuations in a capitalist economy. In the new slump it will be necessary to reduce the rate of interest or income tax again and so on. Thus in the not too remote future, the rate of interest would have to be negative and income tax would have to be replaced by an income subsidy. The same would arise if it were attempted to *maintain* full employment by stimulating private investment: the rate of interest and income tax would have to be reduced continuously.

In addition to this fundamental weakness of combating unemployment by stimulating private investment, there is a practical difficulty. The reaction of the entrepreneurs to the measures described is uncertain. If the downswing is sharp, they may take a very pessimistic view of the future, and the reduction of the rate of interest or income tax may then for a long time have little or no effect upon investment, and thus upon the level of output and employment.

Even those who advocate stimulating private investment to counteract the slump frequently do not rely on it exclusively, but envisage that it should be associated with public investment. It looks at present as if business leaders and their experts (at least some of them) would tend to accept as a *pis aller* public investment financed by borrowing as a means of alleviating slumps. They seem, however, still to be consistently opposed to creating employment by subsidizing consumption and to *maintaining* full employment.

This state of affairs is perhaps symptomatic of the future economic regime of capitalist democracies. In the slump, either under the pressure of the masses, or even without it, public investment financed by borrowing will be undertaken to prevent large-scale unemployment. But if attempts are made to apply this method in order to maintain the high level of employment reached in the subsequent boom, strong opposition by business leaders is likely to be encountered. As has already been argued, lasting full employment is not at all to their liking. The workers would "get out of hand" and the "captains of industry" would be anxious to "teach them a lesson." Moreover, the price increase in the upswing is to the disadvantage of small and big rentiers, and makes them "boom-tired."

In this situation a powerful alliance is likely to be formed between big business and rentier interests, and they would probably find more than one economist to declare that the situation was manifestly unsound. The pressure of all these forces, and in particular of big business — as a rule influential in government departments — would most probably induce the government to return to the orthodox policy of cutting down the budget deficit. A slump would follow in which government spending policy would again come into its own.

This pattern of a political business cycle is not entirely conjectural; something very similar happened in the USA in 1937–38. The breakdown of the boom in the second half of 1937 was actually due to the drastic reduction of the budget deficit. On the other hand, in the acute slump that followed the government promptly reverted to a spending policy.

The regime of the political business cycle would be an artificial restoration of the position as it existed in nineteenth-century capitalism. Full employment would be reached only at the top of the boom, but slumps would be relatively mild and short-lived.

Should a progressive be satisfied with a regime of the political business cycle as described in the preceding section? I think he should oppose it on two grounds: (1) that it does not assure lasting full employment; (2) that government intervention is tied to public investment and does not embrace subsidizing consumption. What the masses now ask for is not the mitigation of slumps but their total abolition. Nor should the resulting fuller utilization of resources be applied to unwanted public investment merely in order to provide work. The government spending program should be devoted to public investment only to the extent to which such investment is actually needed. The rest of government spending necessary to maintain full employment should be used to subsidize consumption (through family allowances, old-age pensions, reduction in indirect taxation, and subsidizing necessities). Opponents of such government spending say that the government will then have nothing to show for their money. The reply is that the counterpart of this spending will be the higher standard of living of the masses. Is not this the purpose of all economic activity?

"Full employment capitalism" will, of course, have to develop new social and political institutions which will reflect the increased power of the working class. If capitalism can adjust itself to full employment, a fundamental reform will have been incorporated in it. If not, it will show itself an outmoded system which must be scrapped.

But perhaps the fight for full employment may lead to fascism? Perhaps capitalism will adjust itself to full employment in this way? This seems extremely unlikely. Fascism sprang up in Germany against a background of tremendous unemployment, and maintained itself in power through securing full employment while capitalist democracy failed to do so. The fight of the progressive forces for all employment is at the same time a way of preventing the recurrence of fascism.

ABOUT THE AUTHOR

Michał Kalecki (1899–1970) was a Polish economist.

FILED UNDER

ECONOMIC SCIENCE

FULL EMPLOYMENT / JOB GUARANTEE