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On the Continuing Relevance of Mattick's Critique of Marcuse

Paul Mattick's work still awaits a working-class movement which will find in it a historical understanding of a phase in capitalist history ("the mixed economy" of the postwar era) that will allow the working class to make sense of the newness and distinctiveness of its revolutionary aspirations. Paul Mattick realized that this movement may never come, that his message in a bottle may remain forever lost at sea: "Marx says somewhere that the 'proletariat is revolutionary, or it is nothing.' Presently it is nothing, and it may well be that it will continue to be nothing. But there is no certainty."[1] Mattick understood that the working class could no longer have faith in technocratic promises to stabilize society and would have to reclaim its own centrality in any real attempt to change society at its base—something which no anti-imperialist movement on behalf of peasant revolutions, minority struggle, or student upsurge has even the latent power to do. It was not, however, on a sanguine estimate of the revolutionary spirit of the working class in affluent Western societies that Mattick focused his analysis. Rather, he pinpointed the weakest part of the foundation of the capitalist structure on which that affluence depended.

The critical nature of Mattick's theoretical efforts remains clearest in his treatment of the philosopher Herbert Marcuse, whose grip on the New Left is difficult for someone of my later generation to comprehend. At this point, it is apposite to underline that Marxist theory has historically developed through critique of other socialist currents[2]—from Marx's anti-Proudhon

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to Engels's anti-Dühring to Henryk Grossmann's critiques of Fritz Sternberg, Otto Bauer, and Rudolf Hilferding. Mattick's work stands in this tradition. He initially published his critique of Herbert Marcuse's *One Dimensional Man: Studies in the Ideology of Advanced Industrial Society* as "Limits to Integration" in the 1967 festschrift for Marcuse.[3] It was later amplified and published as *Critique of Marcuse: One Dimensional Man in Class Society* in 1972. In the intervening years, Mattick's 1969 magnum opus, *Marx and Keynes: The Limits of the Mixed Economy,* was published. His critique largely went without reply in the United States then, and is even today only superficially referenced, if at all, in the secondary literature on the philosopher of the New Left by his disciples.

Yet Mattick's Marxism retains a lively character, allowing one not only to make sense of capitalism's recent history but also to see in sharp relief the most pressing outstanding economic problems of today. In brief, Mattick endeavored to show that the contradictions of capitalism were not overcome, as Marcuse believed, by means of technology (automation, cybernetics, capital-saving innovations) or political management of the economy (monetary policy or government-ordered spending—what Marcuse called "waste production"). For Mattick, capitalism simply could not overcome its historic tendency to base itself on an ever-relatively narrower base of productive labor on whose increasing exploitation the expansion of capital continues to depend. Even with the exponential growth in the productivity of labor, capital had found itself unable to maintain value relations conducive to accumulation without depression and war. Mattick argued, for example, that depressions had allowed for the restructuring of capital by accelerating the acquisition of cheapened assets from bankrupted firms, which checked upward pressure on the value composition of capital. Moreover, a depression enabled great leaps forward in the rate of exploitation due to the tormenting presence of a vastly expanded reserve army of labor. War, on the other hand, destroyed not only the value of rival enterprises but machinery in its physical form, playing into ever fewer hands sufficient market room for the surviving capital to recover profitability through large-scale investments that enabled advances in labor productivity.

(How) has capitalism changed?

Mattick noted, however, that the "last great depression on an international scale, which led to the Second World War, lasted too long and penetrated the social fabric too deeply to be still acceptable as a necessary evil for regaining the blessings of prosperity." War could no longer be countenanced, of course, because it threatened the destruction of society itself. This led Mattick (and Mattick alone) to grasp the fundamental contradiction of postwar capitalism: "There is no future for capitalism in war and depression. Yet there are no other ways to effect the large scale structural changes which the continuous expansion of capital production demands."[4]

Marcuse found no reason to believe that a capitalist economy could any longer founder on a shortage of surplus value, thus necessitating such structural change, now that new capital-saving technologies had become available and the stabilizing potentialities of government intervention had been discovered through the experience of depression and war. Marcuse acknowledged that "the economy can only function because of the direct or indirect intervention of the State in vital sectors," but he did not consider the theoretical problem of whether such intervention would confront any limits. He simply granted the state a "supporting, stimulating, even controlling" role; moreover, he argued that state intervention had become a permanent feature of the capitalist system due to the pressures of the cold war.[5] Although the absolute rule of exchange value (pursued by individual entrepreneurs through commodity production by means of wage labor) was threatened by the postwar consensus that the state had to demand that a certain quantity and composition of use values be produced, capitalist society had no alternative but to accept the partial dissolution of bourgeois ideology, since the communist system stood ready to exploit any capitalist descent into depression. Marcuse concluded that government had to ensure a "permanent mobilization" of economic activity by means of the wartime mobilization of fiscal policy. Mattick commented:

> To maintain the existing capitalist structure internationally, as well as in each capitalist nation separately, that is, to maintain the full employment of productive resources, now requires an increasing quantity of non-profitable production; in Marcuse's words, the "squandering of technical, material, and intellectual power for the purpose of permanent mobilization." To do so, and at the same time to maintain so-called affluency, productivity must be continuously increased to secure the necessary profitability of the relatively diminishing profit-producing part of the economy. According to Marcuse, this is precisely what modern technology is accomplishing; it allows for both an unimaginable amount of waste production

> and an "affluency," which, with the exception of a minority of unemployables, welds all social classes to the system and creates one dimensional man.[6]

Here Mattick underscored that an expansion of government spending ("waste production") depended on accelerated productivity and therewith on profit growth in the private sector. In his *Critique of Marcuse,* Mattick attempted to demonstrate precisely why this was so and why Marcuse was wrong to believe that technology could develop under capitalist relations of production so as to make possible such accelerated productivity and profit growth. Mattick had the foresight to focus on waste production under capitalism—its forms, its stimulative effects, and its sustainability—as the key problem:

> The question is then, can capitalism evolve into something other than it is; can the general laws of capitalist development be set aside by technological and political means, which attend to both the profit needs of private capital and the general welfare by the simple expediency of waste-production? It is true that this is exactly what has happened. Yet to see this process as a permanent and ever-widening social practice is to assume that capitalism can transform itself into another system, in which—to speak in Marxian terms—*it is no longer exchange value but use value that rules*. Such a change would imply a change in property relations based, as they are, on the production and distribution of exchange values. In other words, it would require a social revolution.[7]

There are many thinkers today who would claim that the economic possibilities for a reformable capitalism have only been expanded in the last three decades, despite the turbulence of many of those years. It was believed then and it can still be argued today that Mattick's "orthodox Marxism" offers a false diagnosis of the contradictions and possibilities of an advanced capitalism. The following three propositions could be submitted to Mattick at the present time:

1. that more than even Marcuse realized, capital-saving technologies do allow the existing stock to be replaced with everless labor expenditure, enabling direct labor to produce at high rates of profit ever-larger masses of excess surplus value that can only be invested if the government creates sufficient effective demand by itself, ordering production and redistributing income to the poorer classes with a higher propensity to consume;[8]

2. that government deficit spending financed mainly by the issue of interest-bearing bonds—the mixed economy—has never faced any real economic, as opposed to simply political, limits, since interest payments on the national debt, even possibly shrinking today as a percentage of a growing gross domestic product, have remained far below any feasible maximum limit, given on the one hand the government's latent taxing power, and on the other hand the continuing possibilities of further expenditure reductions if interest payments were to rise precipitously as a percentage of government spending in any given year.[9] Most surprisingly, growing tax revenues in today's buoyant economy seem not only to make any such cuts unnecessary to ensure the solvency of the state but also to justify either new sizable expenditures or tax cuts to dissipate a contractionary budget surplus (!);[10] and
3. that expansionary monetary policy (through reserve requirements, open market operations, and discount rates) need not yield regressive income redistribution and destabilizing inflation (assuming some kind of wage and price controls), but rather only allow for a controlled devaluation of public and private debt at the expense of rich creditors (assuming capital controls) and a salubrious check on any liquidity preference.[11]

If it is indeed still possible through political will to stabilize the capitalist economy on a clear growth path, the working-class revolution on behalf of which Mattick theorized lacks any material grounding. Marcuse would turn out to have been correct in basing his ideas on Rudolf Hilferding's thesis of an "organized capitalism" managed and stabilized through an administrative-bureaucratic apparatus which leftists would then have an interest in conquering and deploying for their own ends. At present, Marcuse's critical theory of the oppressiveness of integration has been almost completely eclipsed by efforts to ensure such integration through rehabilitation of the fiscal and monetary instruments after neoliberal ideological victories. Douglas Kellner may indeed be right to underline the importance of Marcuse's attempt to make the ideal of integration itself the object of a critical theory refashioned for an advanced industrial capitalism.[12]

If Mattick's critique seems outdated to critical theorists, his analysis of the limits of the mixed economy probably appears to social democrats as no less a dagger at the heart of Keynesian self-confidence than Milton Friedman's theory of the natural rate of unemployment; or the claim that multipliers are small or nonexistent; or Friedrich von Hayek's argument, that uncontrolled credit creation would eventually create a need to eliminate credit inflation with brutal levels of unemployment.[13] Yet unlike such critics, Mattick surely did not think that capitalist economies could be more cyclically stable than Keynes had supposed. To use a Marcusean phrase, it is a testament to the "closing of the political universe" that any critique of Keynesian assumptions on which leftist alternatives continue to be based may be comprehensible only as yet more neoliberal ideology. Indeed, I have yet to locate a considered response by a Keynesian to Mattick's theory of the limits of the mixed economy. Of course, the marginalization of Mattick by academic critical theorists and respectable leftist politicos alike most probably only reflects the dormancy of the working class upon whose ascendance and independence the recovery of Mattick's work ultimately relies to break through the conspiracy of silence it has met.

I turn first to Mattick's critique of the Marcusean idea about the possibilities of technology; then I examine the Keynesian assumptions of Marcuse's theory of integration, noting at length Mattick's critique and its present vitality. I conclude with some discussion of the American situation today.

Technological possibilities and capital-saving innovations

The Frankfurt School developed a wide-ranging critique of technology, which it understood in the most comprehensive sense. Under the rubric of technology critique, the Frankfurt School came to study topics as diverse as the undermining of human autonomy by the development of instrumental reason; the organization of the population by the technology of statistical reason for the purposes of administration and social control; and technological violations of language in the name of semantic clarity.[14] Although Mattick may well have agreed (or not) with some of this criticism of technology, broadly defined, he certainly did not agree that science or technology had or could become forces that somehow developed their own logic under capitalism: in Marcuse's view, Mattick pointed out, "it is not capitalism's class character which hinders technical development, it is technology rather which secures the continued existence of capitalism."[15]

Marcuse claimed that modern technology had overthrown value relations:

> Technological change seems to cancel the Marxian notion of the "organic composition of capital" and with it the theory of the creation of surplus value. According to Marx, the machine never creates value but

> merely transfers it own value to the product, while surplus value remains the result of human labor power, and through it, past labor (dead labor) preserves itself and determines living labor. Now automation seems to alter qualitatively the relation between dead and living labor; it tends towards the point where productivity is determined "by the machines, and not by the individual output."[16]

Marcuse's belief that there were no limits to the government-ordered waste production by which the working class had been integrated into advanced industrial society depended on the thesis that rising capital or machine productivity would yield a surfeit of surplus value that the state could borrow or tax to finance its fiscal policy while honoring debt obligations. Since Mattick's theory of the limits of the mixed economy depends on the refutation of this thesis, I shall spend some time here on it. It is striking that Marcuse implicitly makes sense of Marx's own theory of a profit rate decline brought about by upward pressure on the organic composition of capital in the same manner that a bourgeois economist would—assuming that Marx's basic idea must be that the marginal physical productivity of capital or its index in the output/capital ratio will tend to decrease over time.

Yet Marx's theory of the falling rate of profit is clearly built on the rising machine productivity that Marcuse takes to be a new feature of capitalist development that would render Marx's theory invalid for advanced capitalism. Keynes also balked at ascribing a declining marginal productivity to capital and instead understood declining profitability to result from the diminishing availability of capital. Yet as Mattick argued, neither the productivity nor the scarcity of capital served well as the pivot of a theory of the origins of profit, and both served as apologies for the fact of exploitation.[17] In the terms of bourgeois economics, Marx does the impossible: he develops a theory of the decline in the profit rate on the very assumption of "a relationship between the capital stock and output that can be termed a historically *increasing* marginal productivity of capital," although of course he does himself accept such a concept.[18] Marcuse could not have failed to recognize the many such passages in the third volume of Marx's *Capital:*

> If the circulating part of the constant capital (raw material, etc.) steadily grows in mass together with the productivity of labor, this is not the case for the fixed capital—buildings, machinery, lighting and heating installations, and so on. Even though these become dearer in absolute terms as the physical mass of production grows, they become relatively cheaper. If five workers produce ten times as many commodities as before, this

> does not mean that the outlay on fixed capital increases ten-fold. Even though the value of this portion of constant capital grows with the development of productivity, it is far from growing in the same ratio.[19]

In order to demonstrate how the general rate of profit could fall even as entrepreneurs are individually successful in raising the productivity of their "capital," Marx, as Mattick explains, had to work at a "very high level of abstraction" to bring to light the "basic social relationships behind the capitalist economic categories" that, although not affecting capitalist behavior, determine "the boundaries of capitalist production." In all of Mattick's writings there is careful attention to the kind of abstraction at work in Marx's theory—not only abstraction from everyday bourgeois categories in order to disclose the workings of total capital but also abstraction from important features of the capitalist system in order to focus on features that are explanatorily relevant to the system's development. In this context, Mattick reminded readers, whose understanding of Marx's work he assumed, that the means by which individual entrepreneurs raised output/capital ratios and reduced overall (indirect and direct) labor unit costs—and thus enjoyed an immediate gain in profitability—constitutes the same mechanism by which the ratio of constant to variable capital in the economy as a whole is increased and the general rate of profit, which exists independently of each individual capitalist, is depressed.[20] And this in turn can only motivate each businessman to further diminish total unit labor costs through more substitution of indirect for direct labor—the procedure that remains, in apparent violation of the labor theory of value, the most effective way to increase individual capital profitability. Mattick noted that it is "for this reason that the displacement of labor by capital cannot be halted within the competitive capital formation process, even though it undermines the very structure of capitalist society."[21]

Let us retrace the argument. Marx argued that although such mechanization remained among the best ways for an individual capitalist to profit and remain solvent, it would have the effect of increasing the value of machinery relative to its valorization base—that is, to the mass of direct labor which it could absorb. No matter how much the rate of exploitation increased over time, this upward pressure on the organic composition of capital would begin to reduce the average rate of profit in the system as a whole, since direct labor expended is alone newly added value. As a result of the depression of the profit rate, Marx suggested that at some point the mass of profit would no longer be adequate for continued accumulation. In a system of positive feedback, this would only encourage each individual capitalist to reduce unit costs even further by the very mechanization that had effected the depression of the average rate of profit in the first place.

In short, mechanization works at cross purposes. On the one hand, the machine is useful to the capitalist because it allows him to reduce unit values by substituting a lesser sum of indirect labor for a greater sum of paid direct labor on a per unit basis. On the other hand, the machine is useful in that it allows for the absorption of labor and surplus labor or (in other words) production of newly added value.

However, the less direct labor employed relative to total capital—that is, the more unit values are reduced—the more difficult it becomes for the capitalist to absorb surplus labor. For Marx, the central structural contradiction was that use value and unit value, or the growth in material wealth and the rate of profit, would tend to move in inverse directions. Mattick argued that capitalism could not simply escape from this structural contradiction, which would generate contradictions in the production process itself, making the Marcusean integration of the working class impossible.

Economists argue, however, that Marx's intuition here proves wrong: it is impossible for labor-saving technological change to reduce the rate of profit in the system as a whole. As a result of the reduction in unit values of outputs by the use of machinery, the unit values of the inputs and thus the costs of the other firms which use those outputs should fall; and this reduction in costs should then increase their rate of profit.[22]

This leads to what is called the Okishio Theorem. Marx's theory is tested in terms of matrix algebra calculations which show according to the Frobenius Perron Theorem that once the labor-saving technological change works its way through the system as a whole, there will be a new unique profit rate (assuming the real wage does change in the process) and it will be higher in most cases.

Although some Marxists question the theorem's relevance, since it assumes that the real wage remains constant in the course of capitalist development, other Marxists underline that the Okishio Theorem is an exercise in comparative statics:[23] it compares the system before the technical change to the same system after the technical change—one stationary state compared to another stationary state. It seems to be a form of *ceteris paribus* reasoning—that is, what happens to the system, *ceteris paribus,* after the introduction of this technical change. But the problem here is that the system does not wait, does not hold itself constant for as long as it takes the technical change to work its way through the system until a new stationary state is realized. This confuses the logical time implicit in this form of *ceteris paribus* reasoning with the historical time in which the real economy is located.

This confusion is most evident in the assumption that there are no true time-subscripted variables in the new equilibrium state described by this method. That is, the inputs and outputs are assumed to be equal in price and value in the new equilibrium state—it is assumed that there are stationary values. As Andrew Kliman has sharply observed about the new equilibrium state, the inputs which enter into the capitalist's costs as production is undertaken are assumed to be as low in price as the outputs which result from the technical change.[24]

But in the real economy, technical change is continuous, prices are not stationary, and there is disruption to the system before any one innovation works its way through along the way to a new stationary state in which input and output prices are stationary. And if one allows for this much reality, the rate of profit can indeed fall from ongoing technical change, though of course the profit rate will not fall as precipitously from upward pressure on the technical composition of capital if there is a continuous depreciation of unit values. The Okishio Theorem is thus in Marxist estimation based on assumptions utterly foreign not only to Marx's vision of the dynamics of capital accumulation but also to reality.

One could add here as well that a stable output/capital ratio does not imply any attenuation of the tendency for minimum capital requirements for enterprises to rise; capitalist production continues therefore to be haunted by the threat of an insufficient mass of surplus value since value remains locked up for longer periods in ever larger masses of machinery. At any rate, Marcuse was simply wrong to believe that Marx's theory of falling profitability had to be revised because it rested on a Malthusian-like assumption of falling output/capital ratios (Marx's theory is forcefully based on a theory of declining unit values) instead of rising (indirect and direct) labor productivity.[25]

There are two further clarifications of Marx's argument to make. Not only did Marcuse incorrectly assume that Marx had not realized that machines in the investment sector would be of progressively superior design, allowing a smaller proportion of the workforce to keep a given stock of capital intact—the reproduction costs of machinery would decline like every other commodity, especially after kinks in initial models were removed—he paid no attention to Marx's concept of moral depreciation in the real-time flow of capitalist production. Although cheapened machinery (relative to its output) may seem to do away with scarcity of surplus value vis-à-vis accumulation requirements, this is actually only the case if these improvements are introduced entirely in the conjectural course of replacement of plant and equipment carried out to make up for normal wear. If not, it will be remembered that to avoid "moral depreciation," capitalists are forced to quicken amortization of machines brought into existence under less-productive conditions. Marx then noted that this would encourage a resort to longer hours and multiple shifts to ensure amortization, making the working day of the equipment twice to thrice that of the average wage earner.

This in turn requires real wage increases sufficient to compensate for the growing intensity of production and the educational time needed for workers to learn how to design and operate newer vintages of machinery. Although real-time capitalist dynamics invalidate the assumption of a constant real wage on which other refutations of Marx's theory of declining profitability, such as the Okishio Theorem, depend,[26] it does underscore, as Mattick wrote elsewhere, that the rate of surplus value must still be "large enough to cover both the new investments and the devaluation of the existing capital."[27] Just as this dual task of the preservation and expansion of capital fell on labor, Mattick argued that on productive labor also fell the double task of maintaining the government-ordered production outside total capital and valorizing the capital that had been invested. Only by the proper maintenance of the relation between surplus and necessary labor within the abode of production could "technology" or "the mixed economy" appear to have stabilized capitalism and integrated the working class.

Mattick also challenged Marcuse's belief that technology and science had become autonomous forces in capitalist society that would ensure the latter's reproduction, though raising the problem of how to manage workers' free time as work time was eliminated. Mattick understood this utopia of the end of work to be impossible, not on technical grounds but under the value relations of a bourgeois society. For one thing, the assimilation of new labor-saving means of production would have to slow down progressively as capitalists succeeded in continuously reducing the number of productive workers, for as a result they would also reduce the "unpaid labor-time relative to the mass of accumulated capital which could only make it more difficult to continue the capital formation process, which is only the accumulation of unpaid labor-time transformed into profit-yielding means of production."[28]

There is, of course, a related reason why capitalist relations fetter the adoption of labor-saving technology that may be of increasing importance as reduced telecommunication and transportation costs facilitate the globalization of production. Since machinery is only adopted if it costs less than the labor power it replaces (as this is what capital pays for, not total labor time), it follows that it may well not pay to buy machinery where the value of labor power is low.[29] From this perspective, it is possible that the globalization of production may well encourage technological regress. Only if surplus value and the wage form are abolished can the total labor basis for calculations on the adoption of machinery be greatly augmented and the advances in mechanization correspond fully to the technical knowledge of humankind. Marcuse had failed to grasp that technological and scientific development has no independent meaning with regard to the capitalist system. Working time cannot simply be reduced under capitalist relations even if technology allows for it. As Mattick observes, only the workers can unleash their full productive power: "the proletarian revolution would be the greatest of productive forces by destroying the capitalist relations of production. History is the history of class struggle, not technology."[30]

I now turn to the question of the ability of the Keynesian state to attenuate class struggle.

The viability of the Keynesian project

> An apparently new attempt is made to "control," to "correct," and to "steer" the existing economic system. Such measures serve at the utmost to weaken temporarily or even merely to disguise some of the most obstructive results of capitalistic production. . . . In trying to escape from the periodical crises which threaten more and more the existence of bourgeois society, and in a desperate attempt to overcome the existing acute crisis of the whole capitalist system, the bourgeoisie is compelled, by continually fresh and deeper "interference" with the inner laws of its own mode of production, and continually greater changes in its own social and political organization, to prepare more violent and more universal crises, and at the same time, to diminish the means of overcoming future crises.
>
> Karl Korsch, 1938[31]

By 1967 Mattick had already developed a conceptually innovative critique of Keynesianism, despite the prestige it enjoyed during that decade of economic stability as a successful positive and policy science. Mattick not only predicted the shattering of the economic stabilization then achieved through a combination of tax, fiscal, and monetary means, he anticipated the possibility that private capital would even have to mount a counterattack against the expansionary Keynesian state, whose growing debt burden would eventually prove incompatible with continued accumulation due to the taxes the mounting debt would require for its retirement or the ever larger claims on savings needed to roll the debt over. And indeed, although government intervention had only a few years earlier been considered the perfect instrument to ensure that the economy remained at a high GDP equilibrium, the onset of recession and mass unemployment—coupled with unprecedentedly high government deficits—had critical eyes turned on the mixed economy by the mid-1970s.

What makes Mattick's original analysis of continuing relevance is the centrality even today of the question of the future of the mixed economy. Through the Maastricht criteria, Europe has attempted to limit deficits of member nations to 3 percent of GDP, while debt is not allowed to exceed 60 percent of GDP. In Japan a serious crisis has been averted by massive deficits that have led to the run-up of such an ominous national debt that society seems to live in fear of a day of reckoning when the government will impose a draconian tax regime or print money to inflate away the debt (along with the income of pensioners) or both. In the United States a bipartisan consensus has emerged that any budget surplus should be used for tax rebates, if not debt retirement, but explosive new government expenditures are not considered by any "responsible" politicians. The limits of the mixed economy remain at the center of political controversy.

But the rejection of an expansive government sector has often been understood to stem not from any objective economic limit but rather from the success of neoliberalism and the hegemony of financial fractions of the capitalist class most interested in a complete neutralization of inflationary pressure. For example, it can be argued that inflationary macroeconomic policy may be welcomed by productive capital in order to ward off any threat of excess capacity as long as the state and unions can contain wage demands in the context of rising capacity utilization. Rentiers, however, cannot withstand inflation. Today's Left Keynesians therefore hold out the possibility—earlier entertained by the fascist Oswald Mosley, who was directly inspired by Keynes—of a political alliance of industrialists and workers, the former providing the money and the latter the votes for a fiscally liberal party defined in opposition to rentiers and financial interests. Of course, a Left Keynesian may be skeptical of such an alliance if he does not think wage demands can be contained in a full employment economy. But these same Left Keynesians point to the ever-present threat of underconsumption, as workers are always paid less than the value they create. It follows from their own premise that industrialists should call for strong support of effective demand through fiscal expansion. Industrialists should be attracted to a program that may aim at a little less than full employment. On the premises of the Left Keynesians, it is difficult to see why such a party would not be able to prevail—and indeed has not prevailed—easily over a party in the service of only the narrowest fraction of the capitalist class.[32]

It is not surprising therefore that Left Keynesians emphasize that government officials and the public are in the grip of bad economic ideas. Yet to the extent that the capitalist class as a whole comes to reject even mild debt-financed expansionary macroeconomic policy, the left Keynesian program simply devolves into support for "responsible" trade unionism with no full-employment macroeconomic policy in return. As of this writing, it seems that the American Left is now attempting to replace the latter with support for neomercantilist trade policy as a means toward full employment. This can indeed lead to a new alliance between workers and capitalists at the expense of provoking mutually destructive retaliatory responses in an ever-more-fractured global political economy.

Faith in the efficacy and necessity of Keynesianism did not die easily, even after the onset of stagflation in the 1970s, and this doctrine still retains its hold on the political imagination of a Left threatening to settle into simple trade nationalism. Led by Robert Eisner, the defenders of the mixed economy have waged an econometric battle to salvage the stimulative effects of deficits. Eisner argued that skepticism about deficits derived from their association with downturns, though it was downturns that reduced revenue and created the need for more expenditures, and thus, deficits. Eisner attempted to show that downturns themselves had resulted from a reduction in the real size of deficits in the first place.[33] Correcting then for the effect of the downturn on the deficit, Eisner argued, the stimulative effect of the deficit on modern economies would be thrown into relief. Yet, as Daniel Shaviro argues, Eisner had "more trouble explaining why the 1980s, which had higher deficits than either of the two preceding decades *even on an inflation-adjusted, high-employment basis,* should have featured higher unemployment and slower growth than the 1960s."[34]

Of course, Eisner would have called attention to the effects of restrictive monetary policy. Eisner in fact welcomed the inflation that had derived from looser monetary policy. Indeed, against all those who scaremongered about rising national debt, Eisner attempted to show that inflation yielded such debt depreciation that the debt owed to the government was made much less onerous so as to render nominal deficits a de facto accrual of real surpluses. All this suggested to Eisner that fiscal policy throughout the 1970s remained contractionary and thus possibly an effective cause of recession, but the source of this inflation, hardly neutral in its class distributional effects, remained unclear.

Mattick understood this inflation as necessarily "connected with government induced production by way of deficit financing."[35] In order to prevent government debt issues, with which the mixed economy was being financed, from raising interest rates, the U.S. Federal Reserve Bank responded with open-market operations to increase the money stock and prevent (or at least dampen) the rise in rates.[36] For Mattick, such monetary accommodation could only produce inflationary pressures, and indeed did culminate in the great inflation of the late 1960s and 1970s. Real interest rates had remained low into the late 1970s in order to sustain the growth of the mixed economy, but the Federal Reserve Bank finally abandoned its policy of accommodating federal debt issues as inflation soared while unemployment remained high. The Keynesian project was in shambles, just as Mattick had predicted.

His explanation for inflationary pressure—unlike that of the monetarists—was not based simply on the growth of the money stock; nor was it based on the absurd idea that the economy had been operating at a level above full employment. Because his explanation requires me to jump ahead of the story, I can only be suggestive here. As the state financed its fiscal policy by borrowing idle money on the easy terms allowed by the action of the Federal Reserve, this latent surplus value could not be accumulated. Its capitalization would have put upward pressure on the organic composition of capital. It would seem, then, that the state's consumption of surplus value slowed down the capitalization of production and thus actually countered the rising tendency of the organic composition.

Along these lines, the theorists of the permanent war economy actually argued that state consumption of surplus value had been a prop for profitability. But Mattick argued that the state could only reduce the profit rate as it borrowed idle money capital to order from industrial units that were allowed to share in the average rate of profit without, however, contributing to the pool of surplus value out of which the debt incurred by the state would be retired. Although the government thus checked a *demand* problem through fiscal expansion, realization of the commodity product did not and does not *ipso facto* ensure the profitable expansion of capital. Toward that end, total capital attempted to preserve *profitability* in the short term by distributing the costs from the mixed economy's pulverization of surplus value over the population at large in the form of price increases.[37] The Keynesian pseudo-solution to inadequate effective demand thus only compounded the underlying problem of insufficient profitability: this crisis solution, like crisis itself, was marked by the destruction of surplus value as capital, although it manifested itself in rising, not falling, prices.

Moreover, the greater the need of the government to borrow to sustain growing expenditures and interest payments, the more it is faced with the fact that idle money capital is a given finite magnitude and that the whole process can thus only be continued through an arbitrary proliferation of paper money, until the whole process erupts into runaway inflation.[38] The value of gold could then only become greater than the value of this (fiat) currency, which finally led the U.S. government to suspend convertibility and break up the Bretton Woods arrangements. Fusing the analysis of power politics with economics, Mattick emphasized the political machinations that the United States deployed in order to force other governments to accept upward reevaluations of their currencies as a way of displacing onto them the balance of payment problems from the inflationary macroeconomic policy of the world's greatest capitalist power[39]—the possible descent of which into insolvency, unilateralism, and militarism no other state was willing (or allowed) to tolerate.[40]

Yet power politics did nothing to restore a profitability of global capital sufficient for each state to achieve a rate of accumulation strong enough for full employment. Although they did allow the United States to run an inflationary course longer than anticipated, these machinations remained powerful indicators of the disintegration of the global capitalist economy. Mattick here proved incredibly prescient:

> The United States was able to force the revaluation of other currencies and to make arrangements that would have allowed exchange rates to fluctuate over a wider range. However, the net effect of all this was only a reapportionment of world trade, with one nation's gain being another nation's loss. The volume of the world economy and profitability remained as they were. The general view now is that the present monetary crisis will be with the U.S. for some time, with temporary measures applied here and there until a new world monetary system can be fashioned that will better meet the needs of the capitalist world economy than did the former one.[41]

Almost twenty-five years after this was written, we remain without a better system. Meanwhile, the monetary instability produced by the U.S. sabotage of Bretton Woods has created both the need for and speculative opportunity in derivatives and foreign exchange markets that have come to dominate contemporary capitalism. The volume of foreign exchange trading in the late 1990s was approximately $1.5 trillion per day; by contrast, in 1997 the global volume of exports averaged $25 billion per day. Valued in 1997 at $360 trillion, international financial transactions were far larger than the worth of the entire global economy.[42]

The consequences of monetary instability are now plain for everyone to see. The sudden appreciation of the dollar against the yen between 1995 and 1998 played a major role in the Asian crisis as stabilized currencies were knocked off their dollar pegs, which sufficiently aggravated the real burdens of these countries' debt to set off financial panic. In fear of such unanticipated movements, we now endure the frantic and manic deployment of overaccumulated capital by international investors in search of high profits, which has given rise to a logic of global financial vulnerability: from risky speculation, to monetary (credit) expansion, to sharp rises in the price of sought-after assets, to a sudden and unexpected fall in the prices of those assets, to a rush into money or quality investments. It is not uncommon for the three major currencies to vary in value by as much as 30 to 40 percent over periods as short as one or two years. The resulting uncertainties in relative costs and comparative advantage have weakened accumulation and encouraged protectionism, resulting in aggressively played zero-sum games in which Japan, Europe, and the United States are now permanently engaged.

I now turn to the question of why the U.S. government, accommodated by Federal Reserve policy until 1979, did not stabilize capitalist society by way of supposed multiplier and accelerator effects.

In the next section I present a brief idea of what the Keynesian revolution was supposed to be, in order to set the stage for a summary of Mattick's critique. I shall conclude with a brief note on the American macroeconomic situation.

The Keynesian idea

As Keynes himself acknowledged, his theory had its roots in the multiplier idea, introduced by Richard Kahn: since "the wage goods industry is driven by activity in the capital goods industry, increases in investment result in a more than one-for-one increase in employment in the wage goods industry."[43] Keynes's idea was that it would not matter who was doing the investment; if private business was depressed and unwilling, government could do just as well. That is, through deficit spending the government could carry out investment that would through this multiplier effect boost effective demand. This would improve the economic expectations of private businessmen who, optimistic about the marginal efficiency of capital, would then themselves make new investments and so raise employment levels and GDP beyond the fillip provided by government waste production itself.

A critique of Keynesianism must also clarify, beyond these indirect stimulative effects, the nature of government waste production itself. For example, in building a road, the government is obviously not employing means of production with which labor can produce additional commodity product embodying surplus value to be realized through the market. Of course, the road may allow a future stream of income through tolls, but this income is not derived from additional commodity output but from a de facto tax, required to retire the debt undertaken for road construction. To concentrate on government-ordered production itself, I abstract from the increased commodity production that may be enabled by a better public infrastructure system. But this is not simply an analytical distinction; for example in Japan today, lavish government waste production in the form of bridges to sparsely populated islands, concrete linings for rivers, and roads to nowhere manifestly has little positive effect on commodity circulation and capital turnover.

Mattick's critique focuses on the fetishistic definition of investment from the Keynesian standpoint, as given for example by Paul Samuelson: "The importance of investment consists in the fact that it involves disbursal of income to the factors of production while not at the same not bringing to the market goods, which must be currently sold."[44] Export surplus and inventory buildups have a similar function, according to this view, as does the government deficit. Eisner, for instance, stresses that future output need not be marketable goods at all or even goods to which it makes any sense to assign a market value. He is willing to count goods and services that are simply useful (such as roads) as investments in "public capital," which should thus be amortized, not expensed—thereby further reducing the real deficit and through such simple bookkeeping tricks making the mixed economy appear more sustainable. Eisner basically urges that "social consumption" should be thought of as investment, thus creating the illusion that public spending is self-financing.

Yet even understood as investment, government spending was to stimulate private investment. Hence it could not interfere with the markets in which private capital was already or potentially operative. It must be noncompetitive, as Mattick explained:

> If the goal of these transactions is the stabilization of the market economy, government induced production must be non-competitive. If the government would purchase consumption goods and durable goods in order to give them away, it would, to the extent of its purchases, reduce the private market demand for these commodities. If it would produce either of these commodities in government-owned enterprises and offer them for sale, it would increase the difficulties of its private competitors by reducing their shares of a limited market demand. Government purchases, and the production they entail, must fall out of the market system; it must be supplementary to market production.[45]

Keynes, of course, did not shy away from the forms of waste production that would be feasible under these restrictive conditions. Indeed, he made fantastic arguments in the form of a *reductio ad absurdum:*

> If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coal mines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well tried principles of laissez faire to dig notes up again . . . there need be no more unemployment and, with the help of the repercussions, the real income of the community, and its capital wealth also, would probably be greater than it actually is. It would, indeed, be more sensible to build houses and the like; but if there are political and practical difficulties in the way of this, the above would be better than nothing.

Indeed, Keynes argued that great periods of prosperity in economic history, from the ancient Egyptians to the Middle Ages, derived from a now anachronistic extravagance in public investment that had multiplier effects:

> Ancient Egypt was doubly fortunate, and doubtless owed to this its fabled wealth, in that it possessed *two* activities, namely pyramid building as well as the search for the precious metals, the fruits of which, since they could not serve the needs of man by being consumed, did not stale with abundance. The Middle Ages built cathedrals, and sang dirges. Two pyramids, two masses for the dead, are twice as good as one, but not so two railways from London to New York."[46]

Applying this principle to modern economies, Alvin Hansen wrote:

> The development of a public park, swimming pool, playground, or concert hall makes possible a flow of real income no less than the erection of a radio factory. . . . Public expenditures may also be . . . income creating in the sense that they tend currently to expand income and employment. . . . Indeed, when private business outlays decline, the government alone is in a position to go forward and sustain the income through increased expenditures."[47]

Within this framework it becomes impossible, Mattick argued, "to see that 'productive' and 'capitalistically productive' mean two different things, and that public like private investments are capitalistically productive only if they create surplus value, not because they supply material goods or amenities."[48] Mattick did not deny that such income creation, boosted by a multiplier effect, could help realize commodity capital already produced but unsold due to insufficient effective demand resulting from a reduced rate of accumulation (since a slowdown in accumulation of additional constant and variable capital means a reduction in the payment of the "factor incomes" with which commodity output is realized). In one of his pithiest formulations, Mattick noted: "Because *not enough* has been produced, capital cannot expand at a rate which would allow for the full realization of *what has been* produced. The relative scarcity of surplus labor in the production process appears as an absolute abundance of commodities in the circulation process and the overproduction of capital."[49] These surplus commodities can indeed be sopped up by the income from a government policy of fiscal expansion. Realization difficulties can be overcome, however, only by the growth of government debt, the retirement of which depends on the private sector achieving a surge of profitability such as only a long-lasting and severe depression can make possible. Of course, such a depression would have to be endured without further contribution to the debt. By deferring crisis, the Keynesian program only heightens the contradictions of capital accumulation in the long run.

It was in 1967, in a critique of Marcuse, that Mattick published a version of the argument he would develop over the next fifteen years:

> The government increases effective demand through purchases from private industry, either financed with tax money or by borrowings on the capital market. Insofar as it finances its expenditures with tax money, it merely transfers money made in the private sector to the public sector, which may change the character of production to some extent but does not necessarily enlarge it. If the government borrows money in the capital market, it can increase production through its purchases. Capital exists either in liquid form, i.e. as money, or in fixed form, that is, as means and materials of production. The money borrowed by government puts productive resources to work. These resources are private property, which, in order to function as capital, must be reproduced and enlarged. Depreciation charges and profits gained in the course of government-contracted production are "realized" out of money borrowed by the government, but this money, too, is private property—on loan to the government at a certain rate of interest. Production is thus increased, the expense of which piles up as government indebtedness.
>
> To pay off its debts and the interest on them, the government has to use tax money, or make new borrowings. The expense of additional, government contracted production is thus carried by private capital, even though it is distributed over the whole of society and over a long period of time. In other words, the products which the government "purchases" are not really purchased, but given to the government free, for the government has nothing to give in return but its credit standing, which in turn has no other base than the government taxing power and its ability to increase the supply of credit money.
>
> We will not enter here into the intricacies of this rather complex process, for however the credit expansion is brought about and however it is dealt with in the course of expanding government-induced production, one thing is clear, namely, that the national debt, and the interest on it, cannot be honored save as a reduction of current and future income generated in the private sector of the economy. . . .
>
> Because government induced production is itself a sign of a declining rate of capital formation in the traditional sense, it cannot be expected to serve as the vehicle of private capital expansion effective enough to assure conditions of full employment and general prosperity. It rather turns into an obstacle to such expansion, as the demands of government on the economy, and old and new claims on the government, divert an increasing part of the

> newly produced profit from its capitalization to private account.
>
> Of course, claims on the government, which make up the national debt, can be repudiated, and "profits" made via government induced production are thus revealed for what they actually are, namely, imaginary profits.[50]

It should be obvious how incorrect it was for Douglas Kellner to dismiss Marcuse's critics for "arguing that he had surrendered the Marxian theory of capitalist crisis, its emphasis on contradictions and class struggles, and its attempt to find disintegrating factors within society and social forces that would be able to overthrow capitalism and construct socialism. The orthodox Marxian strategy of critique tended either to quote classical Marxian doctrine against Marcuse, or to present social facts and tendencies which put in question Marcuse's tendencies."[51] This was, at any rate, not the strategy of Mattick's critique, of whose conceptual innovativeness Kellner evinces no understanding. Most striking of all, Mattick understood debt-financed state spending to be no different in principle than the destruction of capital associated with depressions, even though this state-mediated devalorization of capital paradoxically manifested itself as a growth in effective demand and profits:

> The money capital utilized by the government is not invested as capital and so preserved but disappears into "public consumption." If the state debt is ever paid off—which may well not happen—it can only be paid out of new surplus value freshly created in production. And this would in no way alter the fact that the surplus value represented in the national debt has vanished without a trace instead of adding its volume to the accumulation of capital. It follows that the state's use of increased public spending to fight crisis ends by consuming capital. This consumption of capital appears as a growth of production and employment, but due to its unprofitable character, it is no longer *capitalist* production and really amounts to a hidden form of expropriation by the state. The state uses the money of one group of capitalists to buy the production of another group, with the intention of satisfying both groups by assuring for one the interest on and for the other the profitability of its capital. But the incomes that appear here as interest and profit can only be paid out of the total social surplus value actually produced, even if the reckoning can be deferred. As a result, from the standpoint of the system as a whole the proceeds of state-induced production must count as a deduction from the total profit and therefore as a diminution of the surplus value needed for accumulation. Since the crisis results from a shortage of surplus value, it can hardly be overcome by increasing this shortage.[52]

Although Mattick argued that the issuance of government debt allows overaccumulated capital to function only *as if* it were capital (while in fact destroying it), Mario Cogoy clarified that government-ordered production means "unreproductive goods" in that although they represent surplus value for their *individual* producers, they constitute a loss for *total* capital, in whose *expanded* reproduction as wage or capital goods these unreproductive goods do not enter and to which they consequently do not transfer their own value, thus simply extinguished. These unreproductive goods are paid for out of *revenue,* entailing a deduction via taxes or government borrowing from the total surplus value generated in the private economy.[53] In this way, Cogoy, following Mattick, showed that the mixed economy would find its limits in the contradictions of production and structure of capital.

Yet this may not seem satisfactory. If government spending amounts simply to the ordering of unreproductive goods, then it seems impossible to distinguish between weapons and worldwide troop deployments, on the one hand, and on the other, research laboratories and dual use technologies (such as the internet) which, even if expenditures, have nonetheless helped capitalist profitability by encouraging capital-saving innovation and reducing the costs of unproductive labor (e.g., through on-line buying). And the reduction in military spending has already had a dramatic effect on the U.S. economy. While the Reagan-initiated policy of stepping up expenditures while reducing taxes took public debt from 25 percent of GNP in 1981 to 50.1 percent in 1993, military expenditures have dropped steadily, from 6 percent of GNP in the mid-1980s to about 3 percent by the late 1990s. As Joseph John Wallis puts it, "The peace dividend eventually experienced in the late 1990s ended up being roughly equal to annual interest on the national debt."[54] If post–cold war cuts allow for a reduction of government expenditure—in the year 2000 at its lowest point in relation to GDP in thirty years—capitalist profitability may no longer face any threat from the mixed economy. Unlike Marcuse and the theorists of a permanent war economy, Mattick would surely not have dismissed the possibility that trimming the mixed economy, especially its military sector, could aid capitalist profitability by allowing for lower taxes and borrowing costs, which would stimulate accumulation. In fact, this is exactly what Mattick thought capitalism would have to do. What he wanted to emphasize is exactly this—that such limits would have to be imposed on the mixed economy, thus depriving capitalism of the mechanism by which it had avoided a downward spiral from recession to depression.

This raises the question of the supposed indirect effects of the Keynesian stimulus. According to the theory, big deficits, adjusted for the effects of recession and inflation, can raise the level of economic activity sufficiently for it to remain stable as a percentage of GDP over the course of the business cycle, despite the debt. The argument proceeds from the assumption that a slowdown in accumulation results from a so-called declining marginal efficiency of capital, a *subjective* concept of which "the state of confidence" is a key part.[55] Confidence can be improved if "animal spirits" are revived by *expectations* of buoyant demand, undermined at the moment by low demand, to be bolstered by aggressive fiscal policy, thereby reversing the vicious downward spiral of private investor pessimism and retrenchment. For example, Darity and Galbraith observe that "In the *stagnationist* state, capitalists are gloomy, the rate of effective demand is low, and strongly expansionary fiscal and monetary policies are both sufficient and necessary to boost spirits, raise profits and restore full employment."[56] This subjective explanation for the falloff in investment feeds the illusion—quickly dissipating in the Japan of early 2000 as the mind-boggling public debt exceeds 600 trillion yen ($5.5 trillion), already considerably more than total economic output and almost twice the U.S. level in relation to its GDP[57]—that aggressive demand-side policies can solve what is conceived of as a collective action problem among uncertain private investors and signal a switch in investment behavior, culminating in a high GDP equilibrium which would make the debt manageable.

Actual changes in the objective conditions of production, usually effected in the downturn of the business cycle, such as the devaluation and centralization of capital, are thought unnecessary to revive accumulation. Keynes's argument turns out to be the *reductio ad absurdum* of the subjectivist turn of bourgeois economics; as William J. Blake noted, Eugen Böhm-Bawerk would not have recognized his spotted grandchild. Mattick put the point sharply: "Whatever the objective reasons for depressions, as long as economists consider them unascertainable, they have nothing to work on but the psychology of the class they represent."[58]

One could argue that the paradoxical maintenance of effective demand through the destruction of capital prevents the driving to the wall of backward enterprises that in the course of the classic crisis cycle allows the surviving centralized capital to bolster its profitability and so the investment rate. In any case, it would have come as no surprise to

Mattick that in the 1990s profitability has enjoyed a spike, due in part to lower interest rates, as governments, facing the limits of the mixed economy and enjoying the end of the cold war, have competed less for capital (though one of the effects of the narrowing outlet of relatively safe government securities was the global flow of surplus capital, bloated by the U.S. Federal Reserve Bank's expansionary monetary policy in response to the Asia crisis, into riskier corporate bonds and an already overheated stock market that became a substitute stimulus of the economy through the so-called wealth effect).

Mattick would also not have been surprised that even in the wake of a U.S. budget surplus—itself resulting mostly from relatively high marginal tax rates on massive equity gains and thus precariously depending on continued advances on Wall Street[59]—all serious political candidates must still insist they will never again engage in debt-financed expansionary fiscal policy. Within Mattick's framework, it also hardly is surprising that Europe finds itself, under the stringent Maastricht convergence criteria, struggling to reduce deficits and contain debt. Nor would either the need for or ineffectiveness of Japan's wild fiscal policy have struck him as mysterious. Mattick indeed predicted that the state, needing to shed its commitment to the unproductive expansion of production (in the form of military expenditures or otherwise), would resume its classic functions as a class state—that is, improving conditions of production for the respective national capitals and carrying out repression.[60] The limits of the mixed economy have seemingly been reached, leaving no floor for a severe economic downturn during which only the slaughterous destruction of rival capital will point a way out, bringing again to naught all visions of an organized global trading system.

Kellner is not wrong to characterize Mattick as an orthodox Marxist, as his theoretical work served the purpose of clarifying the international workers' struggle to abolish capital, wage labor, and the state. In Mattick's hand, orthodox Marxism proves itself more adequate to the dynamics of advanced capitalism than Marcuse's critical theory. However, by neglecting that it was through a basic theoretical advance that Mattick recognized the limits of the mixed economy, Kellner wrongly argues that Mattick could have and did cite actual tendencies that called into question Marcuse's theory of integration. How could he have in 1967? Marcuse theorized during the 1960s, a period of high output growth, high productivity growth, and low job creation (though low unemployment). It was only in the 1970s and 1980s that—as Mattick predicted—

there was a collapse of productivity growth, so that high rates of output growth were sustained only by drawing millions of new workers into the labor force in an explosion of low and very-low wage jobs. The boom of the 1990s has continued to be marred by low rates of output growth, low productivity growth, and low job creation—though all these indicators showed upward movement in the late 1990s due to a "trickle-down," consumption-based impetus from the explosion in the value of stock market portfolios, which motivated considerable personal borrowing at low margins for further speculation, though it was routinely acknowledged in the financial press that equities are already in no relation to actual profits. At present, the banking system, sitting atop massive nonperforming assets, is also doubly leveraged to the stock market, through both the supply of venture capital in search of initial public offerings and profits from equity underwriting, asset management, and other stock-related fees.[61] With such mounting fragility in an economy with a speculative base, it is apposite to note that there were five recessions between 1970 and 1992, while there were none in the 1960s, when Marcuse held sway as philosopher-king of the Left.

The American macroeconomic situation

One important facet of the *American* Keynesian state, I believe, remains insufficiently developed in Mattick's work, though he recognized and analyzed the problem that I shall discuss in closing. Simply put, unlike many Third World or other debtor nations with obligations in foreign currencies (frequently the U.S. dollar), the U.S. government itself has greater room for money creation or monetization of interest-bearing debt because its debt is all owed in dollars, foreclosing threat of default. Moreover, despite the run-up in the U.S. current account deficit, foreigners have continued to show an enormous interest in accumulating dollars through foreign direct and portfolio investments and by their current account surpluses vis-à-vis the United States. Also, already having built up substantial holdings in dollar denominated assets, foreigners are themselves forced to intervene to maintain the dollar in the face of exogenous shocks or even depreciations, the root cause of which is the U.S. government's inflationary monetary policy. Having the top currency thus gives the United States capabilities for macroeconomic stabilization "without tears," far exceeding what other governments can do.

The attraction of the dollar derives from its role as the world reserve currency; the pricing of oil in dollars;[62] the stability and safety of assets in a relatively prosperous and especially highly liquid economy; and the willingness of many governments to defend the dollar, given the enormous stake they already have in dollar-denominated assets and their desire to prevent the economic insolvency of the United States, which could lead to a closing of its market to less-favored allies and the retrenchment of the military forces of the lone superpower. As a result, the United States has been able to run up massive current account deficits only to itself organize the depreciation of the dollar and so its foreign debt, usually denominated in dollars—yet without loss of continuing capital inflow. So long as there is no acceptable alternative and dollar holders maintain confidence in the greenback, the United States will continue to enjoy the privileges of seigniorage. Both U.S. state and private capital can offer fairly low returns despite their already heavily indebted position, and thus prolong a debt-powered prosperity. At present, for example, a record $4.2 trillion in debt outstanding had been accumulated by nonfinancial corporations through the third quarter of 1999; the debt load has increased a staggering 60 percent in the past five years alone.[63]

It can only be explained to some extent in explicitly political terms why there have not been inflationary pressures and a wholesale loss of confidence in the dollar as the Federal Reserve Bank has allowed explosive money creation by maintaining a low federal funds rate and by selling Treasury bonds to enable the banking system to meet reserve requirements as lines of credit are accessed. A seemingly inflationary dollar surplus continues to be "invested" by foreigners and Americans alike in the dollar-denominated assets that have thus enjoyed an inflation that has only fueled more speculation. Even nonfinancial corporations have loaded up on debt to buy back their own stock in tax-friendly deals. All this seems to make a massive sell-off of dollar-denominated assets ever more likely, no matter how artificially delayed, due to the exercise of American political-economic power. Given the global structural dependence on the U.S. market, a real downturn could well cast the world into the turbulent seas of a protracted depression. Although greater capacity for money creation by the world reserve center in the short run may stimulate profits, or at least the illusion thereof, it in no way signifies improvement in the conditions of production that alone enables the conversion of money into capital, the *sine qua non* of prosperity in a capitalist economy.

It is possible that the manipulation of the dollar and the inflow of capital may have allowed U.S. capital over the last twenty-five years to rationalize production, to dominate the most profitable parts of leading new industries, and to carry out the research and development necessary for comfortable leads in microprocessors, software, biotechnology, computers, medical instruments, aircraft, etc.[64] This may still not allow a full recovery of immediate postwar profit levels, but higher absolute profits may be sufficient to maintain the U.S. world position (even if a greater percentage of the smaller GDPs of Japan or the EU states is spent on research and investment).

The end of the cold war has doubtless strengthened the relative position of the United States. The specter of so-called communism having faded, the United States has more aggressively opened the markets of its allies and, as already mentioned, scaled back its military expenditures. There can be little doubt, however, that this relative lead has led to "irrational exuberance" on Wall Street, shared by Americans and foreigners alike. At some point there must be sufficient exports to pay for the foreign debt the United States has undertaken. This will depend on the strength of investment demand abroad, especially as the weight of capital goods in U.S. exports has grown. To the extent that this investment abroad has been undermined by the draining of profits into the United States, whether to buy inputs from American technological monopolies or simply to take a position in the U.S. economy, the United States will not be able to generate sufficient exports without ever-steeper depreciations of its dollar, anticipation of which can only induce repatriation of foreign capital, however limited by political factors. It may turn out that even then American exports will not be that stimulated, if they prove not to be as sensitive to relative currency value as to the strength of investment demand. Whether we speak of an unsustainable current account deficit or a contractionary surplus, idle capacity in excess of global market demand, or an insufficiently strong rate of accumulation in other countries for high employment and absorption of their share of global exports, the root of all these problems lies in the shortage of surplus value in the system as a whole. As its deficits mount, the United States will surely continue to urge, if not coerce, its allies (Japan in particular) to undertake the very expansionary policy that it has itself foregone on the grounds that a shortage of surplus value cannot be overcome—as Mattick recognized almost thirty-five years ago—by policies that only aggravate the underlying problem.

Notes

1. Paul Mattick, *Critique of Marcuse: One Dimensional Man in Class Society* (New York: Herder and Herder, 1972), 91.

2. See Hal Draper, *Marx's Theory of Revolution: Critique of Other Socialisms* (New York: Monthly Review Press, 1990).

3. Paul Mattick, "The Limits of Integration," in *The Critical Spirit: Essays in Honor of Herbert Marcuse*, ed. Kurt Wolff and Barrington Moore, Jr., 374–400 (Boston: Beacon Press, 1967).

4. Mattick, *Critique of Marcuse,* 40.

5. Herbert Marcuse, *One Dimensional Man: Studies in the Ideology of Advanced Capitalist Society* (Boston: Beacon Press, 1964), chap. 2. See also Doug Kellner, *Herbert Marcuse and the Crisis of Marxism* (Berkeley: University of California Press, 1984), 232ff, for many of Marcuse's strongest formulations about the stabilization of the economy through government intervention.

6. Mattick, *Critique of Marcuse,* 40–41. Mattick clearly understood that Marcuse's theory remained a critical one: "In this, Marcuse thinks, men are selling the prospects of a truly human, self-determined, future for the mess of a pottage of today's high living standards. How much more worthwhile would their lives be, and how much their standard of living, if waste-production were entirely eliminated and social production were rationally geared to the real needs of men." For Marcuse, waste production included not only armaments and such for which the government had irrationally created an effective demand, but also varieties of consumer goods for which advertising had stimulated desire. Mattick concentrated, as shall I, on the former type of waste production because it did not represent a form of capital, as the latter does. The importance of this distinction is developed below.

7. Mattick, *Critique of Marcuse*. Emphasis added.

8. Government spending and redistribution are the keys to avoiding the destruction of the surplus accrued from oversaving that would put the economy into an underemployment equilibrium. The Left-Keynesian vision, and the parliamentary strategy based on it, basically reduces to this idea. See, for example, the work by Thomas Palley, assistant director of public policy of the AFL-CIO, *Plenty of Nothing: The Destruction of the American Dream and the Case for Structural Keynesianism* (Princeton: Princeton University Press, 1998), which represents the Left-Keynesian perspective that here is subjected to critique. Palley adds a case for protectionism to ensure that wages remain high and that any Keynesian stimulus and redistribution do not leak out of the national economy.

9. For the two reasons given, Oliver Blanchard has argued that the U.S. government has retained substantial power to raise, in any given year, a budget surplus that would not undermine economic activity. On that basis, he has argued that more than doubling the Reagan-era debt that had accumulated by 1988 from $2 trillion to $5 trillion would not have threatened the solvency of the government. See William Darity and James Galbraith, *Macroeconomics* (Boston: Houghton Mifflin, 1994), 342–43. The sustainability of larger deficits and debt—that there are no pressing limits to the mixed economy—is argued by Robert Eisner in *The Misunderstood Economy: What Counts and How to Count It* (Cambridge: Harvard University Press, 1994); and by Darity and Galbraith, *Macroeconomics*.

10. See Paul Davidson and James Galbraith, "The Dangers of Debt Reduction," *Wall Street Journal*, March 3, 1999, A18.

11. James Galbraith, *Created Unequal: The Crisis in American Pay* (New York: Free Press, 1998) includes a substantial defense of expansionary monetary policy as well as reforms to constrain any inflationary pressure.

12. It is difficult to imagine that Mattick would have had much interest in the explosion of criticism of neoliberalism, since he would have understood its emergence as a sign of the limits of reformist policymaking and the need to overthrow the capital social relation, rather than to reinstate Keynesian policy, the expressed or implicit goal of critics of neoliberalism from Walden Bello at the Third World Institute to France's leading sociologist, Pierre Bourdieu.

13. For an excellent resume of the problems with which bourgeois economics has charged the Keynesian project, see Robert Skidelsky, "The conditions for the reinstatement of Keynesian policy," of which he supports only a minimalist type since the "stagflation" of the 1970s discredited more aggressive programs (in *The Impact of Keynes on Economics in the 20th Century,* ed. Luigi L. Pasinetti and Bertram Schefold, 36–52 [Cheltenham, UK: Edward Elgar, 1999]).

14. For recent explorations of these themes, see Eric L. Krakauer, *The Disposition of the Subject: Reading Adorno's Dialectic of Technology* (Evanston, IL: Northwestern University Press, 1999); and Moishe Postone, *Time, Labor and Social Domination: Reinterpretation of Marx's Critical Theory* (Cambridge: Cambridge University Press, 1993).

15. Mattick, *Critique of Marcuse,* 25.

16. Marcuse is quoting Serge Mallet here in *One Dimensional Man,* 28.

17. Paul Mattick, *Marx and Keynes: The Limits of the Mixed Economy* (Boston: Porter Sargent, 1969), 110.

18. Shane Mage, "The 'Law of the Falling Tendency of the Rate of Profit': Its Place in the Marxian Theoretical System and Relevance to the U.S. Economy" (Ph.D. dissertation, Columbia University, 1963), 119.

19. Karl Marx, *Capital,* vol. 3 (New York: Vintage, 1981), 369.

20. Although Marx noted that a theory of the declining profit rate remained the *pons asinorum* of classical economics, he considered his solution to be quite simple. Of course this becomes impossible to appreciate within the straightjacket of linear algebra. In his *Frontiers of Political Economy* (London: Verso, 1991), Guglielmo Carchedi has worked up excellent, simple, and elegant models to demonstrate Marx's basic insight. My understanding is very much indebted to him.

21. Mattick, *Critique of Marcuse,* 31–32.

22. Even if technical change has not affected the organic composition of capital or remained on a Harrod neutral path, the rate of profit may still fall due to rising circulation and R&D costs, privately and state-financed, which represent unproductive expenditures deducted from total surplus value. See Prabhat Patnaik, *Accumulation and Stability Under Capitalism* (Oxford: Oxford University Press, 1998). The recognition of the importance of these considerations is due to Fred Moseley, *The Falling Rate of Profit in the Postwar United States Economy* (New York: St. Martin's Press, 1992).

23. Duncan Foley criticizes the unrealistic assumption of a constant real wage in his *Understanding Capital: Marx's Economic Theory* (Cambridge: Harvard University Press, 1986), 139. Phillipe van Parijs has presented an elegant presentation

of the Okishio critique of the theory of the tendency toward a falling rate of profit in *Marxism Recycled* (Cambridge: Cambridge University Press, 1993), 37–69.

24. See the chapters by Andrew Kliman and Alan Freeman in *Marx and Non-Equilibrium Economics,* ed. Guglielmo Carchedi and Alan Freeman (Brookfield, VT: Edward Elgar, 1996).

25. See Patnaik, *Accumulation and Stability under Capitalism;* and Moseley, *The Falling Rate of Profit in the Postwar United States Economy.*

26. Foley, *Understanding Capital;* and van Parijs, *Marxism Recycled.*

27. Paul Mattick, *Marxism: Last Refuge of the Bourgeoisie?* (Armonk, NY: M.E. Sharpe, 1983), 72.

28. Mattick, *Critique of Marcuse,* 29–30.

29. See the discussion in William J. Blake, *Marxian Economic Theory and Its Criticism* (New York: Cordon Press, 1939), 213ff.; and Roman Rosdolsky, *The Making of Marx's Capital* (London: Pluto Press, 1977), chap. 32.

30. Mattick, *Marxism: Last Refuge of the Bourgeoisie?* 102.

31. Karl Korsch, *Karl Marx* (New York: Russell and Russell, [1938] 1963), 146.

32. Palley, *Plenty of Nothing,* 117–19.

33. Eisner, *The Misunderstood Economy.*

34. Daniel Shaviro, *Do Deficits Matter?* (Chicago: University of Chicago Press, 1997), 110. (Emphasis added.)

35. Mattick, *Critique of Marcuse,* 21.

36. I thank Allin Cottrell for the clarification of Federal Reserve Bank's policy of accommodating federal debt issues until the Volcker shocks of the late 1970s.

37. Paul Mattick, *Economics, Politics and the Age of Inflation* (Armonk, NY: M. E. Sharpe, 1977), 34.

38. Ibid., 33.

39. Ibid., 76.

40. Here Mattick anticipated the analysis of the leading American academic student of international political economy, Robert Gilpin, from whom I quote at length in order to underline the fusion of economics and politics that Mattick himself emphasized:

> America's cold war allies, fearing that a collapse of the dollar would force the U.S. to withdraw its forces from overseas and to retreat into political isolation, agreed to hold overvalued dollars. Also, such export-oriented economies as West Germany and, at a later date, Japan wished to keep access to the lucrative American market. Throughout the postwar era the U.S. always had one primary partner helping it to defend the dollar and hence the U.S. international position. In the early postwar period, the American position and support for the dollar were based on cooperation with the British; this "special relationship" begun between the First and Second World Wars had been solidified by wartime experience. The Anglo-Saxons worked together to frame the Bretton Woods System and reestablish the liberal international economy. By the late 1960s, however, the relative decline of the British economy forced Great Britain to pull away from its close partnership with the U.S.
>
> West Germany then replaced Great Britain as the foremost economic partner of the U.S. and as the main supporter of the dollar. Throughout the Vietnam War and into the 1970s, the Germans supported American hegemony by holding dollars and buying American government securities. Inflationary and

other consequences of this new special relationship weakened it in the mid-1970s and eventually led to a fracture in the late 1970s when the Germans refused to support President Carter's economic policies; the Germans then joined the French to sponsor the European Monetary System. Creation of this "zone of stability" in West Europe was the first of many efforts to isolate the European economies from the wild fluctuations of the dollar.

In the 1980s, the Germans were replaced by the Japanese when, through their investments in the U.S., the Japanese provided financial backing for Reagan's economic and military policies. In the 1990s, sporadic informal cooperation among American, German, and Japanese central banks supported the international role of the dollar. This cooperation continued largely due to fear of what would happen to the international economic and political system if the monetary system were to break down.

Robert Gilpin, *The Challenge of Global Capitalism: The World Economy in the 21st Century* (Princeton: Princeton University Press, 2000), 61–62; see also 120–21, 222–25).

41. Mattick, *Economics, Politics and the Age of Inflation,* 77.

42. Gilpin, *The Challenge of Global Capitalism,* 140.

43. Darity and Galbraith, *Macroeconomics,* 34, 38.

44. Quoted in Shigeto Tsuru, *Institutional Economics Revisited* (Cambridge: Cambridge University Press, 1993), 31.

45. Mattick, *Critique of Marcuse,* 17.

46. John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt, Brace, 1936), 129, 131.

47. Quoted in Paul Mattick, *Economic Crisis* (Armonk, NY: M.E. Sharpe, 1981), 128.

48. Ibid., 128.

49. Mattick, *Marx and Keynes,* 79.

50. Mattick, "The Limits of Integration."

51. Kellner, *Herbert Marcuse,* 270.

52. Mattick, *Economic Crisis,* 150.

53. Mario Cogoy, "The Theory of Value and State Spending," *International Journal of Political Economy* 17, no. 2 (1987): 92.

54. John Joseph Wallis, "American Government Finance in the Long Run, 1790–1990," *Journal of Economic Perspectives* 14, no 1 (winter 2000): 78.

55. "The state of confidence . . . is a matter to which practical men always pay the closest and most anxious attention. But economists have not analyzed it carefully and have been content, as a rule, to discuss it in general terms. In particular it has not been made clear that its relevance to economic problems comes in through its important influence on the schedule of the marginal efficiency of capital. There are not two separate factors affecting the rate of investment, namely, the schedule of the marginal efficiency of capital and the state of confidence. The state of confidence is relevant because it is one of the major factors determining the former, which is the same thing as the investment demand-schedule." Keynes, *The General Theory,* 148–49.

56. Darity and Galbraith, *Macroeconomics,* 404. It should be noted that Darity and Galbraith also develop a new political theory of the business cycle which is based on the idea that recessions are needed to signal and coordinate investment decisions in a way that prevents the breakdown of co-respective competition through competitive greenfield investments.

57. Peter Landers, "Moody's Might Cut Government Debt-Rating for Japan," *Wall Street Journal*, February 17, 2000, A2, and "Japan Sets Last Push to Stimulate Economy," *Wall Street Journal*, November 10, 1999, A17.

58. Mattick, *Marx and Keynes,* 17.

59. Louis Uchitelle, "A Surplus Built on Bricks of Income Inequality," *New York Times*, February 28, 1999, section 3, p. 4. See also Anna Bernasek, "How the Budget Surplus May Get Washed Away," *Fortune*, September 6, 1999, 40.

60. In numerous writings, Bob Jessop suggests a transition from the Keynesian welfare state to the Schumpterian workfare state without mentioning that Mattick and Cogoy had predicted such a transformation at the height of confidence in Keynesian techniques. See Bob Jessop, "Postfordism and the State," in *Post-Fordism: A Reader*, ed. Ash Amin, 251–79 (London: Basil Blackwell, 1994).

61. For example, see Gary Silverman's report, "Earnings Show Banks' Reliance on Stock Market," *Financial Times*, January 19, 2000, 15: "A consumer banking powerhouse serving one of every 3 households, Bank of America said its net interest income fell 2 percent during the quarter to $4.5 bn, while its nonperforming assets rose as a percentage of the total. By contrast, the noninterest income at the bank soared 35 percent to $3.6 bn and banks officials predicted that fees from equity underwriting and M&A growth would continue to power earnings growth."

62. David Spiro draws out the implication of this well: "So long as OPEC oil was priced in U.S. dollars, and so long as OPEC invested the dollars in U.S. government instruments, the U.S. government enjoyed a double loan. The first part of the loan was for oil. The government did not have to produce goods and services in exchange for the oil until OPEC used the dollars for goods and services. Obviously, this strategy could not work if dollars were not a means of exchange for oil. The second part of the loan was from all other economies that had to pay dollars for oil but could not print currency. Those economies had to trade their goods and services for dollars in order to pay OPEC. Again, so long as OPEC held the dollars rather than spending them, the United States received a loan. It was, therefore, important to keep OPEC oil priced in dollars at the same time that government officials continued to recruit Arab funds." *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets* (Ithaca: Cornell University Press, 1999), 121–22.

63. Gregory Zuckerman, "U.S. Boom: Living on Borrowed Dime?" *Wall Street Journal*, December 3, 1999, C1.

64. See, for example, David Mowery and Richard Nelson, eds., *Sources of Industrial Leadership: Studies of Seven Industries* (Cambridge: Cambridge University Press, 1999); and F. M. Scherer, *New Perspectives on Economic Growth and Technological Innovation* (Washington, DC: Brookings Institute Press, 1999).