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Kalecki's and Keynes's Perspectives on Achieving and Sustaining Full Employment in a Global Economy[#]

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Abstract

This paper examines the challenges of achieving and sustaining full employment in a global economy, as discussed by Michał Kalecki and John Maynard Keynes. Its aim is to analyse the common perspectives and differences between Kalecki and Keynes on this issue. The paper first examines the basic views of Kalecki and Keynes on long-term employment issues. This contains comparing their respective considerations of political economy constraints to full employment. Then Kalecki's and Keynes's views on the constraints in open economies and the economic policy strategies they proposed are assessed. The paper points out Kalecki's advocacy for public deficit spending and income redistribution for achieving full employment, which slightly differs from Keynes's emphasis on stimulating investment, including partial socialisation. Regarding power relations, Kalecki focussed on the conflict between capital and labour, calling for 'crucial reforms' like nationalisation of key industries, while Keynes highlighted the conflict between financial and industrial capital. Both shared a nuanced view of globalisation, but differences emerge when discussing the Keynes Plan. Keynes aimed to prevent deflation in the international monetary system, while Kalecki stressed long-term international lending for sustaining full employment. Both economists underscored the importance of international conditions for achieving full employment, emphasizing the need for a balance of payments equilibrium over strictly balanced current accounts.

Keywords

Full employment, global economy, John Maynard Keynes, Michał Kalecki.

JEL Classification

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1. Introduction

In this paper we explore the 'big pictures' painted by Michał Kalecki and John Maynard Keynes focussing on the issue of securing full employment in a globalised economy, and we discuss commonalities and differences between them. Kalecki (1933, 1935) and Keynes (1936) are well known and recognised as proponents of the 'principle of effective demand', according to which in a monetary production economy output and employment are usually determined by aggregate demand in the goods market, in the short and in the long run. Both thus reject the orthodox idea that, at least in the long run, output and employment are given by aggregate supply, determined by full employment in the labour market, based on profit-maximising behaviour of firms and utility maximising behaviour of households. Our exploration of Kalecki's and Keynes's 'big pictures' with regard to securing full employment in a globalised world economy also focuses on the role of conflict and the political economy dimension in the respective approaches. During the discussion surrounding the Keynes Plan, an initiative for reforming the international monetary system in the 1940s, some differences in viewpoints between Keynes and Kalecki became evident. We proceed as follows: In the second section, we review the basic understanding of how to solve the long-run problems of full employment from the perspective of both authors and we discuss the respective views on the political economy constraints to full employment. In the third section, we turn to the open economy constraints and how to deal with them from the perspectives of Kalecki and Keynes. The final section summarises the main findings and points out some implications.

2. Kalecki and Keynes on how to solve the long-run problems of full employment and on political economy constraints to full employment

2.1 Kalecki[1]

Michał Kalecki (1954, 1971) is renowned as the co-inventor, along with John Maynard Keynes (1936), of the 'principle of effective demand' in macroeconomics (Hein 2023, ch. 2). In fact, Kalecki (1933) spelt out the role of effective demand even before Keynes, initially published only in Polish, however. Unlike Keynes, Kalecki integrated income distribution into the foundation of his principle, with the profit share primarily determined by mark-up pricing in oligopolistic or monopolistic markets that dominate the industrial and service sectors of advanced capitalist economies.[2] Firms typically maintain excess capacity, and changes in demand tend to impact the rate of capacity utilisation rather than prices, which remain constant due to stable unit variable costs and mark-ups in pricing. Aggregate demand is chiefly influenced by investment, which can be funded independently of prior saving through credit generated endogenously by the banking and financial sector, without the need for reserves or deposits before lending. Investment is primarily influenced by expected demand and firms' internal financing, affecting their creditworthiness in incompletely competitive financial

[1] This section partly draws on Hein and Martschin (2020).

[2] For an overview on Kalecki's theory of money, distribution and effective demand, see Hein (2023, ch. 3.3).

markets – a concept known as Kalecki's (1937) 'principle of increasing risk'. Equilibrium domestic demand tends to be wage-led, meaning that increasing the profit share will reduce domestic demand because the propensity to consume out of wages is higher than out of profits. Investment is mainly determined by sales (expectations) rather than real unit wage costs. Government deficit expenditures and domestic export surpluses each contribute to raising equilibrium aggregate demand and profit volumes.

According to Sawyer (2015), based on these theoretical foundations, Kalecki proposed a comprehensive macroeconomic policy strategy to achieve and sustain full employment between 1943-46, during his time at the Oxford University Institute of Statistics and later at the International Labour Office in Montreal.[3] In his 'Three ways to full employment' (Kalecki 1944), assuming a closed economy with elastic labour supply, he outlines three approaches:

1. Government deficit spending on public investment (such as schools, hospitals, highways) and subsidies to mass consumption (family allowances, reduction of indirect taxes, subsidies to control prices of necessities).
2. Stimulating private investment through reductions in interest rates or lowering income taxes.
3. Redistribution of income from higher to lower income classes.

Kalecki (1944, 1945) dismisses the second approach – stimulating private investment through interest rate and tax cuts – for two reasons. Firstly, it is an indirect method relying on positive responses from entrepreneurs, which may be hindered by depressed expectations during economic recessions. Secondly, even if initial interest rate and tax cuts stimulate investment and aggregate demand in the short run, the capacity effect could dampen investment without a sufficient increase in autonomous demand. Hence, further interest rate and tax cuts would be necessary to sustain investment at a higher level, facing significant limitations. Consequently, Kalecki (1944) suggests a combination of the first and third approaches – government deficit spending and progressive income redistribution.

Concerning government deficit spending, Kalecki (1944) clarifies that crowding out would not occur in the presence of unemployed resources and with low interest rates. Firstly, any initial deficit would, to some extent, self-finance through augmented incomes and increased tax revenues. Secondly, the residual budget deficit would also self-finance, as it produces additional saving equal to the deficit through the income effect, which can be used to fund the deficit.

> '(W)hatever is the general economic situation, whatever the level of prices, wages or the rate of interest, any level of private investment and Budget deficit will always produce an equal amount of saving to finance these two items.' (Kalecki 1944, p. 360)

If the additional saving by the private sector is not utilized to create demand for bonds issued by the government to fund the deficit but is instead intended for liquidity, exerting upward

[3] See also Sawyer (2020), pointing out the current relevance of Kalecki's economic policy approach.

pressure on interest rates in government bond markets, central banks must intervene to prevent interest rates from escalating. Consequently, Kalecki (1944, p. 360) asserts that '... the rate of interest may be maintained at a stable level, however large the budget deficit, given proper banking policy'.

Permanent government deficits raise concerns about the potential burden of government debt. However, Kalecki (1944) contends that national debt cannot burden society as a whole because it primarily involves internal transfers between those holding government debt and those paying taxes—entities that may be the same economic units. Additionally, in a growing economy, interest payments will not disproportionately increase relative to tax revenues at given tax rates. Consequently, there is no necessity to raise tax rates to service government debt. However, if taxation is applied to reduce the government debt-GDP ratio, for example, in the aftermath of a war or a severe recession, Kalecki (1943a, 1944) suggests implementing taxes on wealth, targeting both financial and real assets.[4]

Government deficit expenditures only encounter limitations when a shortage of labour and/or capital stock arises, reaching a full employment or full utilisation inflation barrier.

> 'In order to avoid inflation the Government must, therefore, be careful not to push their deficit spending beyond the mark indicated by full utilization of labour and equipment.' (Kalecki 1944, p. 361)

If the capital stock is insufficient for achieving full employment, especially in less developed countries, the government should prioritise expanding productive capacities in its activities.

Government deficit spending, within the specified limits, will not only stabilize private investment but also prevent severe cyclical fluctuations. Besides, private investment should be regulated by tax rates with the following target:

> 'Private investment must be at a level adequate to expand the capacity of equipment pari passu with the increase in working population and productivity of labour, i.e. proportionately to full employment output.' (Kalecki 1944, p. 366)

Regarding the nature of government expenditure, Kalecki (1944) argues that it should be guided by social priorities, emphasising not only public investment but also public consumption and subsidies to private consumption. While public investment is valuable and necessary, state-owned enterprises should also invest in areas lacking private investment, such as social housing.

Government deficit expenditure should be complemented by the third approach to achieving full employment, which involves income redistribution, as advocated by Kalecki (1944). This entails redirecting disposable income towards low-income households with a higher propensity to consume. For this purpose, he endorses progressive taxation. To mitigate adverse effects on investment, he proposes a 'modified income tax', which exempts

[4] See Sawyer (2020) for further elaborations on this.

reinvested profits from progressive taxation (Kalecki 1943a), or alternatively suggests implementing a wealth tax on financial and real assets. Furthermore, achieving redistribution in market incomes can be realized by ensuring that real wages grow faster than productivity, or by having nominal wage growth exceed the sum of productivity growth and the inflation rate. However, at full employment, attempting income redistribution through wage policies would necessitate higher taxes on profit income to prevent inflation resulting from excess demand. As an alternative or in conjunction with tax increases, Kalecki suggests implementing price controls to constrain profits when wages are rising. In the absence of such measures, nominal wage growth would need to be limited to the combined growth of labour productivity and inflation to prevent the latter from escalating.

Although a combination of government deficit expenditures and redistribution may generate and maintain full employment, Kalecki (1943b) in 'Political aspects of full employment' is keenly aware of the potential resistance from 'economic experts' closely affiliated with banking and industry against such a policy.[5] This resistance persists despite the fact that higher government deficits contribute to increased profits for capitalists after taxes.

> 'The reasons for the opposition of "industrial leaders" to full employment achieved by government spending may be subdivided into three categories: (i) dislike of government interference in the problem of employment as such; (ii) dislike of the direction of government spending (public investment and subsidizing consumption), (iii) dislike of the social and political changes resulting from the *maintenance* of full employment.' (Kalecki 1943b, pp. 349-350)

The first motive is tied to the social function of 'sound finance': Avoiding government deficits for full employment makes employment levels dependent on business confidence, thereby granting capitalists significant political power. The second motive implies that public investment should be strictly limited to areas that do not compete with private investment. This stance leads to resistance against the nationalisation of transport and public utilities. The rejection of subsidising consumption is based on the principle that one should 'earn their bread in sweat' (Kalecki 1943b, p. 351). The third motive suggests that if 'the sack' (unemployment) ceases to act as a disciplinary measure, workers would become more self-conscious, undermining the power of capitalists. Capitalists, in turn, would prioritise discipline in factories and 'political stability' over profits.

Kalecki (1943b) acknowledges that in post-war economies or deep recessions, governments' responsibility for full employment might be recognised, even by capitalists and their experts. However, conflicts persist over the type of government deficit expenditure and its duration. Firstly, capitalists tend to prefer indirect stimuli for private investment, such as interest rate and tax cuts, over government expenditure. If government expenditure is accepted, the focus should be on investment rather than subsidising consumption. Secondly,

[5] For a more detailed discussion of Kalecki's 'Political aspects of full employment', see Sawyer (2023) and Toporowski (2023).

capitalists insist that measures should be limited to economic slumps and resist permanent public deficit spending to sustain full employment. This gives rise to a 'stop and go policy' and a 'political business cycle':

> '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.' (Kalecki 1943b, p. 355)

Certainly, Kalecki firmly rejects a political business cycle and instead advocates for a comprehensive approach involving long-term government deficit expenditures. This approach encompasses public investment, public consumption, and the subsidisation of private consumption, coupled with progressive income taxation, wealth taxes, and other redistributive measures. To sustain this approach beyond the short term, Kalecki contends that a full-employment capitalism must evolve new social and political institutions reflecting the increased power of the working class. He calls for 'fundamental reform', without explicitly specifying the details:

> 'Full employment capitalism will, of course, have to develop new social and political institutions which reflect the increased power of the working class. If capitalism can adjust itself to full employment, a fundamental reform will have to be incorporated in it. If not, it will show itself an outmoded system which must be scrapped.' (Kalecki 1943b, p. 356)

As Sawyer (2023) points out, Kalecki (1942) in the 'The minimum essentials for democratic planning',[6] which deals with the British Labour Party's post-war economic policy programme, has been more specific. In this report it is made clear that the alternatives after the war will be either monopoly capitalist planning or democratic planning. Instead of maximising profits for the owners of monopolies, democratic planning should focus on satisfying the needs of the whole community, i.e. full employment and balanced growth of the production of capital and consumer goods. Instead of economic and political control by the owners of monopolies, democratic planning should promote the economic and political control by democratically elected bodies, at the firm, the industry and the national level. In order to obtain this, a shift of powers is held to be required:

> 'Any national plan must inevitably provide for full central public control of banking and finance, investment and foreign trade, and possibly the allocation of basic raw materials and commodities. These measures, coupled with other measures of indirect social control, would provide a framework within which a good deal of scope could be

[6] As explained by Osiatyński (1992, p. 269), the original of the report appeared unsigned, but with a note that it was prepared with Kalecki's collaboration after a lecture given by him.

> left to private initiative, especially in the secondary and consumer industries and distribution.' (Kalecki 1942, p. 272)

To break the political and social power of the strongest capitalist groups, direct social control is thought to be required. This may take different forms, from full nationalisation to some kind of public corporations. The macroeconomic coordination of production and distribution should be directed by a central economic planning body being responsible to parliament.

Later, Kowalik (2004, p. 48) explains that the late 'Kalecki would most probably say, that the essence of "crucial reform" was successful governance of overall demand', as it happened in the period of what is now called the 'golden age' of capitalism in the third quarter of the 20th century, with large corporations, partly nationalised industries, government guaranteed demand, to a large part armaments, full employment and stable income shares. Kalecki and Kowalik (1971, p. 467) argued that '(t)here will then be a paradoxical situation: a "crucial reform" imposed on the ruling class may stabilise the system, temporarily at least'. Of course, when the 'crucial reform' is reversed, as in the late 1970s, early 1980s, with the liberalisation of labour and financial markets and the monetarist turn of macroeconomic policies, stagnation tendencies and high unemployment are back on the agenda – and they have stayed since then. Extending Kalecki's (1943b) notion of a 'political business cycle', Steindl (1979) then called this 'stagnation policy' or 'stagnation as a political trend' (Hein 2016).

2.2 Keynes

As reported by Osiatyński (1990, p. 573), Keynes endorsed Kalecki's (1943b) 'Political aspects of full employment' in a personal note sent to Kalecki on 20 December 1943. However, Keynes's theory of money, effective demand, output and employment, as presented in the drafts leading to the *General Theory* (Keynes 1979, pp. 76-101) and then in the *General Theory* (Keynes 1936) itself, has no explicit role for income distribution and the distribution conflict between capital and labour. Keynes rather focussed on showing that in a monetary or entrepreneur economy, there is no reason to believe that the leakage from the circuit of income, saving, will be exactly balanced by the injection, investment, and that there is no market equalising leakages and injections at full employment.[7] Say's law does thus not hold and the levels of output and employment are determined by effective demand. In a closed economy without a government, the latter is composed of consumption demand as a function of income and investment demand governed by the monetary rate of interest and the marginal efficiency of capital (MEC), and hence by expected revenues relative to capital costs. Full employment may thus be prevented by a too low propensity to consume, a too high rate of interest and/or a too low marginal efficiency of capital.

While Keynes's theory of effective demand does not explicitly contain distributional issues, they are implicitly present to the extent that the average propensity to consume is affected by income distribution and that the monetary rate of interest can be seen as a

7 For an overview of Keynes's theory of money and effective demand, see Hein (2023, ch. 3.4).

distributional variable affecting aggregate demand. This becomes clear in Chapter 24 of the *General Theory* on 'Concluding notes on the social philosophy towards which the *General Theory* might lead' (Keynes 1936, ch. 24), albeit not in a straightforward way. There Keynes starts by pointing out that

> '(t)he outstanding faults of the economic society in which we live are its failure to provide full employment and its arbitrary and inequitable distribution of income and wealth.' (Keynes 1936, p. 372)

He argues that below full employment higher investment does not require lower consumption, and inequality is thus not required to hold back consumption. On the contrary, lower inequality should be favourable for consumption, investment and capital stock growth, because the propensity to consume is assumed to fall with the level of income. Still, some income inequalities may be justified as stimulus for economic activity and structural change, and striving for economic success and the emanating inequalities may prevent other more harmful social activities. But if inequality goes too far, it will contribute to depressed effective demand and unemployment.

Furthermore, in this chapter Keynes argues that low interest rates are required to increase private investment to full employment levels, taking into account the falling MEC. If successful, this would eradicate the scarcity of capital and

> '(…) it would mean the euthanasia of the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital. (…) I see, therefore, the rentier aspect of capitalism as a transitional phase which will disappear when it has done its work.' (Keynes 1936, p. 376)

It is thus the income claims of the rentiers which are considered as a main obstacle for full employment in a monetary economy. While Kalecki focussed on the conflict between labour and capital, the latter including financial capital, for Keynes the conflict between rentiers and producing firms seems to be the major conflict in a monetary economy, as also pointed out by Bortz (2017).[8] However, in a smooth and gradual process, this conflict and thus the major obstacle to full employment can be overcome with the involvement of the state. In the *General Theory*, Keynes summarises his long-run economic policy programme to secure full employment as follows:

> 'The State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways. Furthermore, it seems unlikely that the influence of banking policy on the rate of interest will be sufficient by itself to determine an optimum rate of

[8] Palley's (2023) claim that Keynes (1936) has denied distribution conflict thus seems to be exaggerated. It contains some truth regarding the capital-labour conflict, but it ignores Keynes's concern with the rentiers-firm distribution conflict.

investment. I conceive, therefore, that a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment; though this need not exclude all manner of compromises and of devices by which public authority will co-operate with private initiative. But beyond this no obvious case is made out for a system of State Socialism which would embrace most of the economic life of the community. It is not the ownership of the instruments of production which it is important for the State to assume. If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them, it will have accomplished all that is necessary. Moreover, the necessary measures of socialisation can be introduced gradually and without a break in the general tradition of society.' (Keynes 1936, p. 378)

2.3 Keynes in comparison to Kalecki

We can thus compare Keynes's view on achieving and sustaining full employment with those of Kalecki outlined in the previous section. First, similar to Kalecki, income distribution is important, but Keynes seems to focus exclusively on the distribution of disposable income via tax policies, without having an eye on functional distribution of income and the distribution conflict between capital and labour. For functional distribution he rather accepts neoclassical marginal productivity remuneration, as soon as full employment is reached:

> 'If we suppose the volume of output to be given, i.e. to be determined by forces outside the classical theme of thought, then there is no objection to be raised against the classical analysis of the manner in which private self-interest will determine what in particular is produced, in what proportions the factors of production will be combined to produce it, and how the value of the final product will be distributed between them.' (Keynes 1936, pp. 378-379)

Second, Keynes proposes low interest rate policies in order to stimulate investment, however, acknowledging the inherent limits of such a policy. Although coming from different theoretical backgrounds – Kalecki (1936) had fundamentally criticised the inconsistencies in Keynes's (1936) theory of investment in the *General Theory* –, both authors hold that low interest rate policies are not sufficient to generate full employment in the long run.

Third, Keynes proposes the 'somewhat comprehensive socialisation of investment' as the main tool for achieving and sustaining full employment in the long run. This differs from Kalecki's view in several ways. Conceptually, Kalecki focussed on government deficit spending for investment and subsidising mass consumption, and pointed out the limits of focussing exclusively on investment expenditures for sustaining full employment. However, one could argue that Keynes (1943) in the 'Long-term problems of full employment' came to a similar conclusion. There he envisaged three phases after the end of the war:

- A first phase, in which investment would exceed full employment saving. Equilibrium would require to limit investment and also consumption by rationing, in order to avoid inflation.
- A second phase, in which investment would be roughly equal to full employment saving. Here, the main task would be to prevent large fluctuations in investment, making use of stable public and semi-public investment for that purpose.
- A third phase, in which investment opportunities would fall short of full employment saving. This period would thus require to encourage 'wise consumption' and discourage saving, and to absorb part of the unwanted surplus by increased leisure, more holidays and shorter working hours.[9]

Keynes's third phase would thus also require a more balanced view on investment and consumption, and would require a long-run shift from producing investment goods to producing consumer goods.

With regard to the political economy dimension, Keynes's view on the 'socialisation of investment' differs from what Kalecki has pointed out in the context of the required 'crucial reforms'. As Konzelmann et al. (2021) point out, Keynes rejected laissez-faire capitalism, on the one hand, but also Labour Party style nationalisation of key industries, on the other hand. He rather was in favour of 'a partnership between institutions of the state and a mainly capitalist structure of production' (Konzelmann et al. 2021, p. 592) and advocated a kind of corporatist approach, containing macroeconomic policy, industrial policy, as well as regulating corporations and industry behaviour, as for example partly implemented by Roosevelt's New Deal in the early 1930s in the USA.[10] Keynes also differs from Kalecki regarding the assessment of the state:

> 'So, whereas Keynes tended at times to see the role of the state as that of a neutral referee, Kalecki adopts the Marxian perspective that the autonomy of the state is only relative to the power of individual factions of the capitalist class (…).' (Kriesler and McFarlane 1993, p. 226)

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[9] The projections for this third phase bear some similarities with Keynes's (1930) 'Economic possibilities of our grandchildren', in which Keynes envisages productivity growth to allow for absolute needs to be satisfied and working hours then to be cut to three-hour shifts or a fifteen-hour working week.

[10] As Konzelmann et al. (2021) also point out, Keynes clearly distinguished between capitalism as an economic system, which needs to be regulated and managed, and capitalism as a 'way of life', which he despised. 'He was thus deeply critical of the love of money in personal life as well as money being a measure of economic success' (Konzelmann et al. 2021, p. 597). This was already a major theme in Keynes's (1930) 'Economic possibilities of our grandchildren'.

Crotty (2019), however, argues that Keynes supported 'liberal socialism',[11] a term, however, which Keynes only used once in an interview in *The New Statesman and Nation.*[12] Furthermore, Keynes's programme is clearly distinguished from Labour Party type socialism based on the nationalisation of key industries, as Keynes also makes clear in the *General Theory*:

> 'Thus, apart from the necessity of central controls to bring about an adjustment between the propensity to consume and the inducement to invest, there is no more reason to socialise economic life than there was before. …. The central controls necessary to ensure full employment will, of course, involve a large extension of the traditional function of government.' (Keynes 1936, p. 379)

Different from Kalecki, Keynes thus highlights more the advantages of individualism and markets: efficiency due to decentralisation of decisions making and self-interest, safeguarding of personal choice and variety of life, etc. However, extended interventions of the government are required to avoid the destruction of the political and social foundations of individualism. Full employment via domestic demand management should also prevent countries from following mercantilist strategies, and should thus calm down the sources for international conflict. To the international dimension of Keynes's and Kalecki's suggestions we turn in the next section.

3. Open economy constraints to full employment and how to overcome them

3.1 Keynes on trade, international finance and a global monetary system

Although Keynes's (1936) *General Theory* is dealing – for proper reasons – with a closed economy, throughout his life he also worked extensively on international economic issues, both in practice and in his writings. In particular, he focused on monetary issues and the international financial system. In the early 1940s, Keynes began to develop the mechanisms and institutions that characterised his concept of the post-war global economy, which aimed at more international trade and a stable international monetary system, while allowing individual countries to pursue their own macroeconomic stabilisation policies (Dimand 2006). This came to be known as the *Keynes Plan* (Keynes 1941, 1942). In his later years, in particular at the Bretton Woods conference in 1944, he actively contributed to the creation of

[11] Crotty's (2019) interpretation is based on his reading of Keynes's contributions to the Liberal Party's Manifesto *Britain's Industrial Future* (1928), his 'National self-sufficiency' (Keynes) and on the *General Theory* (Keynes 1936). However, we would side with Konzelmann et al. (2021) and argue that Keynes's proposals should rather be seen as aiming at reformed capitalism, a middle way between laissez-faire capitalism and Labour Party style socialism.

[12] 'The question is whether we are prepared to move out of the nine-teen-century laissez-faire state into an era of liberal socialism, by which I mean a system where we can act as an organised community for common purpose and to promote economic and social justice, whilst respecting and protecting the individual – his freedom and choice, his faith, his mind and its expression, his enterprise and his property.' (Keynes 1939, p. 500)

international economic institutions that would promote economic cooperation and trade liberalisation.

However, some of Keynes's earlier writings have been interpreted as reflecting an, at least, ambivalent attitude towards the internationalisation of the economy. On the one hand, there are statements in which he clearly points out the welfare-improving effects of foreign trade, but there are also statements in which he criticises foreign economic relations. In his *Finlay Lecture* titled 'National self-sufficiency,' delivered in Dublin on 19 April 1933, Keynes (1933a) was critical of internationally open financial markets and even expressed scepticism about open goods markets. In this lecture, possibly still under the impression of the devastating consequences of the Great Depression, he stated:

> 'I sympathise, therefore, with those who would minimise, rather than with those who would maximise, economic entanglement between nations. (…) let goods be homespun whenever it is reasonably and conveniently possible; and, above all, let finance be primarily national.' (Keynes 1933b, p. 759)

However, the interpretation of Keynes's remarks on national self-sufficiency in his *Finlay Lecture* as having an anti-globalisation stance is subject to differing opinions. On the one hand, there are assessments like those by Crotty (1990), who took this lecture as evidence that Keynes had abandoned the concept of free trade. And Skidelsky (2008, p. 84) made the general assessment that 'Keynes would not have been an enthusiastic globalizer'. On the other hand, it is prudent to treat Keynes's remarks in his Dublin lecture with caution. Nolan (2013), in a thorough analysis, points out that Keynes's *Finlay Lecture* had a clear political intention first and foremost. In the midst of the 'British War' between the new Irish Republic and the United Kingdom, Keynes warned against the adoption of protectionist measures and instead encouraged the recently inaugurated Irish government to pursue free trade with Britain (Nolan 2013, p. 34). Keynes's statements in his *Finlay Lecture* should therefore be placed in their historical context. This becomes evident when one reads the complete manuscript of the *Finlay Lecture*, which was published in *Studies – An Irish Quarterly Review* (Keynes 1933a). There exist three other shortened and modified versions of the *Finlay Lecture* which appeared later in 1933.[13] All three later versions were significantly shortened, omitting crucial passages that underscored the relevance for the political situation in Ireland at that time (Nolan 2013).[14] We agree with the view that Keynes's assertions should not be interpreted as a plea for economic nationalism. Nolan (2013, p. 24) puts it bluntly when he concludes that the original manuscript of the *National Self-Sufficiency* lecture in Dublin shows that Keynes '(…) cautioned

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[13] These variants are: an American version which appeared in the *Yale Review* (Keynes 1933b), a German version which appeared in *Schmollers Jahrbuch* (Keynes 1933c) and a British version (Keynes 1933d) which appeared in the *The New Statesman and Nation* and was included in the *Collected Writings.*

[14] Some 50 years after the publication of the German version of Keynes's *National Self-Sufficiency* (Keynes 1933c), a separate controversy arose. Borchardt (1988) claimed that Keynes engaged in "voluntary self-censorship" by omitting certain sentences criticizing totalitarian regimes and warning against economic nationalism to avoid provoking the representatives of Nazi Germany. Nolan (2013, pp. 23-27) shows, however, that Borchardt's claim is unfounded. See also Hagemann (2014, p. 164-165), who deals with the question of who is responsible for omitting critical passages in the German version of Keynes's paper.

against protectionist policies rather than "praising" national self-sufficiency.' Moreover, Nolan (2013, p. 34) is convinced that the 'original lecture version of his "National Self-Sufficiency", was in fact actually attempting to encourage free trade between Ireland and Britain so as to avoid escalation of the economic war between the two countries'. However, this only really becomes clear when one examines the longer version from the *Studies* (Keynes 1933a), which corresponds to the handwritten manuscript of Keynes's *Finlay Lecture*. Obstfeld (2021, p. 680) also argues that interpreting Keynes's lecture as an endorsement of economic nationalism would be misleading. Instead, it should be seen as an initial manifestation of concepts that Keynes later developed more systematically in his *General Theory*. Keynes's overarching intellectual agenda aimed to steer nations' nationalist endeavors for prosperity away from the conflicts that could arise from beggar-thy-neighbour policies. This redirection was intended to advance global prosperity, including in the developing world. [15]

The view that Keynes was not fundamentally sceptical about foreign trade relations is illustrated by the fact that he was actively involved in the development of post-war global economic institutions which had the fundamental purpose of promoting world trade. The pivotal role he played as one of the chief architects of the Bretton Woods Agreement in 1944 is well known, although key elements of his plan were not included in the Bretton Woods Agreement (Williamson 1985). Keynes was well aware that there could be conflicts in achieving domestic and foreign economic goals. As early as in his *A Tract on Monetary Reform* Keynes (1923) emphasised the need for both an internal and an external equilibrium. An internal equilibrium should be characterised by full employment and stable price levels, while an external equilibrium should be characterised by a situation where exchange rates are stable and each country has sufficient reserves to settle potential international payment imbalances, at least in the short run.[16] Keynes desired the pursuit of both equilibria simultaneously, but placed a greater emphasis on internal equilibrium (Mundell 2000, p. 249). But there can be no doubt that Keynes believed that maintaining external equilibrium was essential for achieving long-term stability in the world economy – which in turn was essential for a thriving domestic economy that would facilitate the maintenance of permanent full employment.

While Keynes was not an anti-globalist, it is evident that he had reservations about excessive globalisation, because macroeconomic dependence on foreign countries can sometimes conflict with a country's domestic economic goals.[17] This was particularly evident during the time of the gold standard. In this system, current account imbalances had a significant impact on the money supply and hence on the domestic economy. In countries with a current account surplus, there is an inflow of gold into the country while deficit countries

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[15] The *Finlay Lecture* also addressed the issue of the 'divorce between ownership and the real responsibility of management', which Keynes (, p. 233) referred to as a 'fundamental problem'. Keynes expressed the belief that in international economics this divorce becomes 'intolerable' during times of stress. Trautwein (2022, p. 17) refers to this viewpoint as 'romantically outmoded'.

[16] In turn, a 'fundamental disequilibrium' in this approach can be described as '(…) a situation in which a country could not expect to achieve basic balance over the cycle as a whole without deflating output from full capacity or restricting trade or payments for balance of payments reasons' (Williamson 1985, p. 74).

[17] Skidelsky (2008) discusses other objections raised by Keynes, which are aimed at ensuring that the consequences of international trade (e.g. the resulting sectoral structural change) do not run counter to the overarching goal of the good life. Keynes also addressed this issue in his *Finlay Lecture* (cf. Krämer 2011).

experience a gold outflow, which can trigger a deflationary movement if money and credit creation are reduced to maintain the gold reserve ratio. Keynes was concerned that this mechanism could have an overall contractionary effect, leading to lower effective demand and deflationary tendencies worldwide, because he believed that the deflationary forces in the deficit countries would outweigh potential inflationary tendencies in the surplus countries. Therefore, Keynes preferred a world monetary system that distributed the burden of adjustment symmetrically between surplus and deficit countries (Keynes 1941).

These considerations also formed the basis of the proposals that made up the Keynes Plan, which Keynes (1941) first outlined in September 1941 and which went through a number of modified versions over the years (Moggridge 1986, Faudot 2021). The essence of Keynes's ideas can be summarised as follows (Flanders 2019, p. 68): (1) The new world economic order should be based on the principles of multilateralism. (2) Permanent imbalances in a country's current account should be avoided. (3) The task of reducing imbalances should not fall unilaterally on the deficit countries, as has usually been proposed, but should also be the responsibility of countries with current account surpluses. To achieve this, automatic adjustment rules should be introduced. (4) An International Clearing Union would help to manage trade imbalances and ensure currency stability. It would essentially function as a central institution, maintaining accounts for national central banks denominated in an artificial currency (named *bancor*). Member countries could utilise these accounts to settle balances between themselves. Interest should be paid on both loans and deposits. (5) Short-term capital movements should be discouraged as far as possible.[18]

Keynes argued for fixed exchange rates, to be adjusted only from time to time, to avoid the damaging effects of the beggar-thy-neighbour policies that were so devastating in the 1930s. To put it in Martin's (2022, p. 223) words

> '(It is) the unique genius of the Keynes scheme which sought to recapture the best aspects of the gold standard – its supposed automaticity – without returning to its obvious weakness: the constricting and deflationary effects it had on the national level.'

Finally, Keynes described the basic philosophy of his proposed new monetary order as follows:

> 'The idea underlying my proposals for a Currency Union is simple, namely to generalize the essential principle of banking, as it is exhibited within any closed system, through the establishment of an International Clearing Bank. This principle is the necessary equality of credits and debits, of assets and liabilities.' (Keynes 1941, p. 44)

In this view a global equilibrium is characterised by the absence of bancor credit or debit on the national central bank's account at the International Clearing Bank – a 'bancor equilibrium' (Faudot 2021, p. 758). To achieve such a global equilibrium, the system would establish a

[18] According to Flanders (2019, p. 68-9), Keynes also wanted the sterling to retain its importance as an international currency. But this goal proved to be out of reach.

series of incentives, incorporating interest charges on both debtors and creditors. It was a key feature of Keynes's proposal that not only the deficit countries should bear the burden of balancing trade and capital flows, but that surplus countries should automatically contribute to the reduction of global current account imbalances.

> 'This idea was celebrated then and later as a truly internationalist vision of burden-sharing between creditor and debtor alike. It also implied (…) a controversial inversion of hierarchies: empowering the debtor to sit in judgment on the domestic policies of the creditor, or so its critics claimed.' (Martin 2022, p. 220)

The early drafts of the Keynes Plan proposed a system of loans to countries with deficits, helping them to maintain a balance of payments equilibrium while allowing them greater autonomy to pursue expansionary national policies. Keynes proposed that trade surpluses above a specified threshold would be automatically transferred to the Reserve Fund of the Clearing Bank (Flanders 2019, p. 68), what meant that they were '100 percent confiscated' (Bibow 2017, p. 181). The funds could then be used to lend to countries with deficits (Toporowski 2018, p. 128).

However, during negotiations in the 1940s on the specific organisation of a global monetary system, Keynes was unable to prevail over the American side on key points. Nonetheless, the Bretton Woods system is in many ways Keynesian:

> 'It embodied, rather, a comprehensive set of rules for assigning macroeconomic policies: exchange rates to medium-run external balance, fiscal-monetary policy to short-run internal balance, and reserves to provide a buffer stock (as distinct from a monetary base) that would allow short-run departures from external balance. This is the intellectual position that Keynes had developed in the interwar years (…).' (Williamson 1985, p. 75)

This accurate description, however, illustrates two fundamental challenges of such an international monetary system: The first is that imbalances in the short run are assessed differently from imbalances in the long run. Even if this can be justified in theory, in practice there is always a degree of arbitrariness involved in distinguishing between the short and the long run. Secondly, and more importantly, there is a need for a definition of what exactly is meant by external balance or equilibrium. We shall return to this problem when we discuss the objections of Kalecki and his colleagues to the Keynes Plan in the next section.

3.2. Kalecki, Schumacher and Balogh on international clearing and lending

The Keynes Plan came in for considerable criticism not only from the Americans, but also from some European economists then affiliated to the University of Oxford. Michał Kalecki, Ernst Fritz Schumacher and Thomas Balogh offered some profound criticisms of the Keynes Plan (Kalecki and Schumacher 1943, Schumacher 1943, Balogh 1943, Schumacher and Balogh

1944)[19]. These three economists argued that the Keynes Plan was not sustainable or efficient, and that it needed to be modified and extended. The core of their criticism claimed that in particular the conditions for achieving full employment in the international monetary order, as outlined in the Keynes Plan, were inadequate (Faudot 2021, Osiatyński 2022).[20]

According to Toporowski (2018, p. 127), Kalecki had already articulated his scepticism about the feasibility of achieving full employment without international cooperation in an early paper published in Polish. If a single government unilaterally endeavours to stimulate its economy, it faces challenges in balancing its foreign trade, as domestic demand increases more rapidly than demand from its trading partners. These challenges could only be addressed through a multilateral approach, with coordinated economic stimulus among multiple governments to ensure increased imports and exports collectively. However, such an approach is susceptible to rivalries driven by competing countries' interests, potentially undermining international cooperation.

In their critical examination of the Keynes Plan, Kalecki and Schumacher (1943) focussed primarily on promoting international long-term lending and securing measures to promote full employment, with the creation of an international monetary unit being a secondary consideration for them (Faudot 2021, p. 761). Consequently, their goal in international monetary reform was to establish an effective method for coordinating national economies, ensuring their ability to uphold domestic full-employment policies.

One of the main criticisms made by Kalecki and Schumacher (1943) was to examine in detail the concept of "international equilibrium" and the consequences it entailed. Actually, they dismissed the notion of equilibrium within the monetary system suggested by Keynes. Moreover, Kalecki and Schumacher disagreed with the common approach that suggests the objective of international monetary arrangements is to ensure convergence towards equilibrium in the current account of the balance of payments:

> 'There is no merit in a general policy aiming at *current account equilibrium* for all countries, because different countries are at different stages of economic development, and a regular flow of investment from the more highly developed to the more backward regions of the world may redound to the benefit of all.' (Kalecki and Schumacher 1943, p. 29)

They argued that nations undergoing industrialization require financial support to sustain trade deficits. Diverse levels of industrial development lead to distinct external positions:

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[19] It should be noted that Kalecki and Schumacher (1943) and Schumacher (1943) referred to "the British plan" in their writings. This plan was set out in a White Paper published in April 1943 under the title "Proposals for an International Clearing Union", based on the fourth draft of Keynes's plan, which he completed in February 1942 (Faudot 2021, pp. 768-9). Moggridge (1986) points out that Keynes revised the original first draft of September 1941 several times in order to sound out possibilities for compromise with the American side.

[20] In the following, we will focus on the criticism made by Kalecki and Schumacher (1943) due to space limitations.

> 'At the present stage of world development any discouragement of surpluses would only slow down the advancement of under-developed regions.' (Kalecki and Schumacher 1943, p. 31)

Developing nations ought to facilitate the influx of long-term capital, whereas developed nations should have the capacity to lend their capital. Consequently, surpluses should be accepted, as they can serve as a catalyst for development.[21]

According to Kalecki and Schumacher (1943), the Keynes Plan lacked the mechanisms to prevent destabilizing capital movements and speculative activities. The International Clearing Union in this proposal could prove to be restrictive in two ways: 'by inducing the surplus countries to ration their exports and by inducing the deficit countries to ration their imports' (Kalecki and Schumacher 1943, p. 29). They were concerned that without a more robust regulatory framework, the plan might not be able to achieve the goal of ensuring economic stability on a global scale and to ensure full employment in all participating countries. To reach that goal, they wanted to ensure that deficit countries receive sufficient loans to increase their imports. Therefore, they called for a solution that would

> '(…) safeguard countries needing an import surplus for purposes of reconstruction, readjustment, and industrialization against any long-term deterioration of their international liquidity' (Kalecki and Schumacher 1943, p. 31).

But it is not entirely clear to what extent Kalecki and Schumacher's (1943) critique of the Keynes Plan, or of those parts of it that were incorporated into the British plan, actually holds. Faudot (2021, p. 759) argues the 'bancor equilibrium' implicit in the Keynes Plan focuses on the short-term capital account as a counterpart to current account transactions, and that in case of such an equilibrium the current account would necessarily also be in balance. However, it is unclear whether the long-term capital transactions would then also have to be balanced, since 'Keynes's proposal is ambiguous on this point' (Faudot 2021, p. 759.). The issue here is that if the long-term capital account were also in balance, the developing countries would not be able to fund their growth through a prolonged period of net foreign capital inflows. Bibow (2020, p. 157) argues otherwise. He points out that Keynes in general concedes a certain role to long-term private capital flows, provided they are linked to the financing of real investment and the development of countries. Short-term financial flows, on the other hand, Keynes wanted to block because they restricted the room for manoeuvre of national economic policy too much and posed a threat to national stability.

It appears to us that the Keynesian framework also allows countries to finance their current account deficits over a longer period of time through long-term net capital inflows. However, the question remains as to what should happen if countries do not receive sufficient long-term capital inflows. Kalecki and Schumacher (1943) criticised the British plan for not

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[21] This idea later became a prominent aspect of post-war development economics and Kalecki's subsequent perspective on the economics of developing countries (Toporowski 2018, p. 133).

including specific provisions on international investment and long-term lending. This is where the real difference between the British plan and the ideas of Kalecki and Schumacher becomes apparent. Kalecki and Schumacher (1943) proposed a mechanism that would unconditionally allow the industrialising countries to finance their current account deficits – up to a certain limit – through long-term loans organised and transferred by the International Clearing Union. In contrast to the British plan, their proposal thus suggested combining international clearing with long-term lending in this international institution. It is important to note that in this deposit-loan system, although it is organised by the International Clearing Union, the real lenders of long-term loans would ultimately be the countries with current account surpluses (whose loans would be interest-bearing).

In line with this argument, Kalecki and Schumacher (1943) proposed the idea of an 'International Investment Board' as a more comprehensive approach to managing international capital flows and preventing the negative consequences associated with unregulated financial movements. The key idea behind this proposal was to create an international institution that would control global capital flows. The board would have the authority to regulate the flow of international investments, with the aim of preventing excessive capital movements that could lead to economic imbalances and crises. This modification aimed to strengthen the somewhat limited equilibrating mechanism in the Keynes Plan, where interest was supposed to be charged to both deficit and surplus countries.

3.3. Keynes in comparison to Kalecki

In essence, Schumacher, Kalecki, and Balogh suggested an approach aligned with Keynesian principles, aiming at both achieving full employment and fostering international trade growth. Their objective was to extend Keynesian principles to their logical conclusion (Faudot 2021, p. 765). The prioritisation of full employment led them to endorse measures such as exchange controls and a relatively high level of international economic planning, favouring these over an emphasis on the volume of international trade. Their proposals also addressed the challenges of industrialisation in developing countries, recognizing their need for long-term investments facilitated through an international institution.

Kalecki and his colleagues shared Keynes' view that the primary goal of a coordinated international monetary framework was to discourage nations from engaging in mercantilism and to enable effective national management of aggregate demand to achieve full employment. The idea was that if all nations maintained sufficient expenditure levels to ensure full employment, the likelihood of individual nations facing persistent balance of payments issues would decrease (Kalecki 1946, p. 323-7). Kalecki and his collaborators proposed that financing net foreign expenditure could involve utilizing international long-term lending, which would be facilitated by creating international bank money in line with Keynes's ideas. Nevertheless, considering that Keynes's concept of an International Clearing Union pertained to achieving a balance of payments equilibrium, which could involve a current account deficit funded by sustainable long-term net capital inflows, it appears that the concerns raised by Kalecki and Schumacher are addressed by Keynes's notion. In this regard, there does not seem to be a fundamental inconsistency between both approaches.

Furthermore, the proposal by Kalecki and Schumacher (1943) to establish a mechanism that automatically transfers money from surplus countries to industrialising deficit countries via the Clearing Union is very similar to Keynes's notion of such a principle, which he developed in his first draft of an International Clearing Union but abandoned in subsequent versions.

However, the proposals put forth by Kalecki, Schumacher, and Balogh extended beyond those of Keynes in one particular aspect. These economists were particularly concerned with addressing the specific needs of developing countries. The creation of an 'International Investment Board' to regulate capital flows in favour of industrialising countries would result in a much greater loss of national sovereignty than the implications of the Keynes Plan. Of course, this would meet the objections of advanced countries, especially the 'hegemon' USA, and thus indicates another, international line of conflicts of interest, in particular in Kalecki's approach.

4. Conclusions

This paper discussed the distinct yet complementary perspectives of Keynes and Kalecki on aggregate demand management to achieve sustained full employment in a globalised world. While both economists share a commitment to this overarching goal, their approaches differ in emphasis and focus. Kalecki advocates for public deficit spending, encompassing not only investment but also consumption, coupled with income redistribution as crucial tools. In contrast, Keynes places a primary emphasis on stimulating investment through low interest rates and suggests a 'somewhat comprehensive socialisation of investment'. Secondary redistribution may complement such a policy approach.

Both address power relations in the economy, but with slight differences. Kalecki identifies the conflict between capital and labour, with capitalists resisting full employment, necessitating 'crucial reforms', such as nationalisation of key industries in the extreme. Keynes, on the other hand, sees conflict more in terms of financial capital versus industrial capital and labour, anticipating a long-run tendency eroding the power of financial capital leading to the 'euthanasia of the rentiers' and paving the way for a corporatist partnership between the state and industrial capital.

Keynes and Kalecki share a nuanced stance on globalisation. They are no anti-globalists, recognizing the benefits of a global division of labour, but cautioning against excessive financial capital-driven globalisation. Although outsourcing and globalisation have slowed since the financial and economic crisis of 2007-09, financialisation and deregulation of product and capital markets have made national economies more dependent than ever on international developments. Still today, the views of Keynes and Kalecki can contribute to conceptualising a sustainable global economic order. They underscore the importance of international conditions for domestic full employment policies – emphasising the need for a balance of payments equilibrium rather than necessarily balanced current accounts. Keynes and Kalecki advocate an international monetary system featuring fixed but adjustable exchange rates, symmetric adjustment obligations, and capital controls. It is worth noting that Keynes's proposals address Kalecki's concerns for financing sustainable development.

However, Kalecki's and his co-author's plan for an International Investment Board and the specific way of regulating international capital flows extends beyond Keynes's framework.

Keynes and Kalecki present macroeconomic and political economy approaches that offer valuable insights into the conditions necessary for achieving full employment in a globalised world. Both authors remind us today of the importance of multilateralism as the basis of a coordinated, stable global economy. Of course, moving closer to such a system implies to overcome the long dominance of neoliberal thought in the global economy (e.g. the 'Washington Consensus') (Krämer at al. 2023). However, the current crisis of the neoliberal paradigm opens up the opportunity for a new interdisciplinary and political economy of international economic relations, which in our view should incorporate the important aspects of Keynes's and Kalecki's ideas.

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