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"Keynes and Marx, Duncan and Me"

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"Keynes and Marx, Duncan and Me"

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Abstract

This paper was originally prepared for the New School celebration of Duncan Foley's career. It attempts to place his work in the context of the evolution of economics as a discipline and of the MIT Economics Department in the last forty years, and in particular the place of Marx and Keynes as catalytic thinkers in that process.

It is always a question in writing for a festschrift as to whether to present a piece of one's own research – presumably inspired by the person being honored – or to write specifically about that person himself. In this case, there is not a real choice. Duncan and I come from very different traditions in economics. Indeed, I am not sure whether Duncan recognizes me as an economist at all, so the direct overlap of our work is limited. Yet, Duncan has represented a critical reference point in my own thinking and intellectual development. In part, this is because he comes out of what is now the mainstream of the discipline and hence speaks with a voice to which I have always felt compelled to listen and where possible to respond. But it is also because he has been one of the few critical voices speaking from that perspective and hence always seemed to promise to help us understand not only the limits of mainstream economics that are apparent from the outside but also its internal weaknesses as well. But perhaps most fundamentally, I have always felt that we were wrestling with the same questions about the role of economics in the world, however different our perspectives and our answers. In this, the way in which Duncan has exercised his influence on me is a puzzle, and it is some of the pieces of that puzzle which I am going to try to lay out here and draw together.

I know Duncan because we both came to the Economics Department at MIT as assistant professors in the same year, 1966; had we not met in this way, we probably would never have met at all. We began our graduate studies at about the same time as well, in the early 1960s. We came, as I have already suggested, from very different places. Duncan represented the "flower" of the new brand of theoretical economics. I was essentially hired by the industrial relations faculty, which represented an older approach to economics, and had the year before I arrived actually moved out of the Economics Department to the Sloan School of Business (although my own appointment was in the Economics Department, in which, it was made quite clear to me when I was hired, I had to make my career). But, despite these differences, a major part of the attraction of economics for each of us was that it was a moral science which spoke to the problems of the world and promised, if not to resolve those problems, then at least to ameliorate them (this is the theme of Duncan's most recent book [Foley, 2006]). We were both active politically, although again in different ways (which it turned out mirrored the differences in our approach to economics). Duncan was active in the Federalist Society, a libertarian Republican organization. I was a New Deal Democrat, committed to the labor movement. For both of us, however, these political commitments were an extension of our scientific work and an expression of the moral dimensions of the discipline.

The Attractions of Economics

As a moral science, which spoke to political concerns, economics was then at its apogee, surrounded by a missionary aura, and MIT's Economics Department was at the forefront of the discipline, the acknowledged leader of the forces which created and sustained its scientific and moral authority. These forces were basically twofold. One was Keynesian economics, the way in which it spoke to the central policy concerns of prosperity, growth and full employment, and the predominance which it achieved in policy deliberations under the Kennedy – and then Johnson – Administrations. Kennedy's Council of Economic Advisors was staffed from the very beginning by leading Keynesian economists: Bob Solow from MIT was Chief of Staff; James Tobin, one of Duncan's mentors at Yale, was a member of the Council itself; Paul Samuelson was an advisor. I was a summer intern at the Council in the first two years of the Kennedy Administration, and Samuelson was regularly seen seated in the halls of the Executive Office Building at a makeshift desk typing memos and preparing Congressional testimony. The ultimate triumph of the CEA's brand of Keynesian economics was President Kennedy's speech at Yale in 1962, in which he explicitly endorsed the economics of his advisors and preached its lessons. Walter Heller, the Chairman of Kennedy's Council, successfully negotiated the transition to the Johnson Administration after Kennedy's assassination, and the new president espoused Keynesian lessons as well.

The second component of the missionary aura that surrounded economics was the sense that it had come into its own as a genuine science, whose understanding of the world was capable of rigorous mathematical formulation and systematic empirical investigation. The leading expositors of this approach were Paul Samuelson and the faculty who collected around him at MIT. But it was an approach that was also practiced at other leading graduate schools, including Yale where Duncan studied. When Duncan came to MIT, he was one of the most promising members of the new generation trained in this tradition. The victory of this approach was, however, more recent at MIT than the school's reputation in the outside world suggested. The Department has been built around labor economics and industrial relations; the endowment of the industrial relations program had been drawn down to attract a new generation of professors. In economics, industrial relations drew heavily upon the German historical school and the Wisconsin institutional school, which the new theoretical school explicitly saw as its protagonists, and, as I already noted, its final victory only occurred the year before our arrival with the withdrawal of the remaining industrial relations faculty to the business school.

The Neoclassical Synthesis and Its Contradictions

While the intersection of the new Keynesian economics and the technical turn in theoretical analysis was, I think, responsible for the enormous attraction that economics exercised at the time, its sense of mission, and its vocation as a moral science (the term "moral", I should note, was not used at the time, no doubt out of deference to the discipline's scientific aspirations), the two developments did not sit easily with each other. Technical economics was concerned with what has come to be called neoclassical economics, an understanding of the economy built around the assumption of rational, self-interested individuals organized into a larger social organization through a competitive market and the price signals which the interaction of those individuals generated. Keynesian macroeconomics was difficult to formulate in this way and essentially assumed that prices, through which the system was coordinated in the competitive model, were too rigid to perform this function. The marriage of Keynesian macroeconomics and neoclassical microeconomics – the neoclassical synthesis – was thus built around a fundamental contradiction. There was a contradiction as well between the new technical achievements of the field and the newly achieved relevance to public policy. Those contradictions were overshadowed, and in a sense justified, at least for the generation which preceded us, by the moral relevance which the discipline had achieved in figuring out how to speak to the problems of the Great Depression and to sustain full employment in the post-WWII period. For our generation of economists, who did not experience the Depression directly, and for whom a full employment economy seemed less problematic, the resolution of the contradictions became the leading intellectual challenge of the discipline (Sethi, 2010).

Resolving the Contradiction

The logic of the problem suggested that there were two alternative ways in which the contradictions could have been resolved. One was to reformulate microeconomics using a set of assumptions about human motivation and about the efficacy of market clearing mechanisms consistent with Keynesian economics. The other was to reformulate macroeconomics with a set of assumptions consistent with neoclassical economics. Coming to economics out of industrial relations, I was attracted to the first of these approaches and much of my early work was motivated, albeit rather indirectly, in this way. Duncan in fact used to maintain that the reason I survived at MIT was that the neoclassical synthesis was maintained there – in a way in which for example it never survived in Chicago – by pushing all of the contradictions into the labor market and accepting a theory of the labor market completely at odds with other markets in the economy. In the end, the discipline itself adopted the second approach, seeking to reformate macroeconomics (and labor market theory as well) so as to make it consistent with neoclassical assumptions. Duncan, who was attracted to neoclassical theory in part because of its libertarian moral implications, would have been a natural exponent of the Chicago approach. But in the reinterpretation of Keynes which has accompanied the current crisis I have come to see Duncan's early work as representing a third approach, that of incorporating money into the neoclassical model (a point to which I will return) (Foley and Sidrauski, 1971).

The Revolutionary Impact of the Late 1960s and Early 1970s

How this contradiction would have played out if economics had retained the moral authority which attracted us initially to the discipline is difficult to say. The promise that economics offered in the early 1960s when we went into the field was progressively undermined in the course of the decade and the one that followed. The social order was shaken by the civil rights movement, by Johnson's war on poverty, by the Vietnam War and the reaction against it, and by the student movement. The issues at stake here could not be addressed through the economic growth which Keynesian economics promised or the economic efficiency promised by the market-based models of neoclassical economics. They involved the distribution of income (not simply its level) and, even more so, they involved power, respect, and social status, things which could not be reduced to material resources. Indeed, the student rebellion ultimately called into question the value of material resources altogether. The problems of the period could not be addressed through the economic models in which we had put our faith. Events seemed to undermine and betray the claims of economics as a moral science.

The Marxist Alternative

Marxian economics was the obvious alternative. It made claims of moral relevance, scientific objectivity and technical prowess comparable to those of conventional economics but at the same time seemed to speak to the issues raised in the politics of the period and link them to the operation of the economy in a way that conventional theory could not.

It is a little hard in retrospect to recapture what Marxist economics represented for mainstream economics at the time. Basically, I think that in the education of our generation (of Duncan's and mine), it was irrelevant. At Harvard (where I was a graduate student), at least, it had not totally disappeared from the curriculum; it was presented in theory courses and in courses on the Soviet Union, but exclusively in terms of the labor theory of value. As students, we thought of it as a foil, basically as a pedagogical device to develop the ideas of marginal utility, relative scarcity and general equilibrium. It was obviously not viewed in that way by our professors, who devoted whole lectures to criticizing it, presenting their critiques with a passion that was otherwise reserved for fundamental theoretical accomplishments. But in the Cold War atmosphere in which we had been brought up, this was not particularly remarkable in a subject so closely connected to communism and the Soviet Union. At any rate, those parts of Marx that spoke to the issues that emerged in the 1960s and 1970s—alienation, class conflict, ideological hegemony—were never touched upon; one would never have known they existed. For me, as a student in labor economics and industrial relations, Marx ironically played even less of a role than it did in my economic theory courses; his theories of history and class conflict were simply not mentioned. I came later to believe that the whole field of industrial relations was invented to provide an alternative framework for thinking about the labor conflicts and collective actions that plagued American society in the 1930s and the immediate post-WWII period. Economics itself provided no way of thinking about these problems at all, except maybe to suppress them in the way one might repeal a tariff or break up a monopoly, an approach to public policy in labor relations which had disastrous social consequences. Marx provided a definite alternative but one embedded in a much broader social critique. And industrial relations was an alternative to the Marxist vocabulary, a way of thinking about unions, strikes and industrial unrest without the revolutionary overtones (Piore, forth.).

Duncan and I were of course not the only members of our generation who turned to what came to be called radical economics. Indeed, for a period of time, it seemed to preoccupy the whole of the profession, and when some of what the MIT and Harvard economics departments viewed as their "best and brightest" began to turn in this direction, it was clear that something a good deal more was at stake here than the labor theory of value. I remember seminars sponsored by the graduate economics club at MIT, attended by virtually the whole of the department, faculty and students, at which radical papers were presented, on several occasions by graduates of the Department itself. The reaction of our senior colleagues was apoplectic – it is hard to think of another word. They were so angry and upset that they could not seem to compose a coherent response to the radical critique. In retrospect, I do not even remember what that the papers were actually about; I remember only the theatre of the events and virtually nothing at all about the substance. The way in which dissent was treated in these seminars seemed to support what might be termed a vulgar Marxian view of the way ideological alternatives to theories which celebrated capitalism are suppressed.

But an emphasis on these grand confrontations gives a misleading impression of what it meant to turn away from mainstream economics and hence the way in which the mainstream exercised its ideological hegemony, especially over those for whom so much of the attraction of the field was its theoretical rigor, coherence and sophistication. Since this was not the way the attraction of the discipline was constituted for me personally, I see this primarily through the eyes of the students who were my advisees. It is captured by three vignettes that over the years continue to reverberate in my mind. One is the report of a student relating an interview with a colleague of mine and Duncan's about the student's aspirations to be a theorist (he was already a champion swimmer). He was told, he felt rather brutally – although I am sure knowing my colleague that the brutality was unintended – that he had come to economics too late, that like an Olympic swimmer, you had to begin training (presumably in math) when you were very young.

The second story which sticks in my mind is a student who decided in the middle of his first year that he wanted to quit the program in order to study forestry at Yale, in the days before the environmental movement made such a choice fashionable, but came under such intense pressure from his colleagues, his fellow students in the program, that he decided he could not leave (although he later he did in fact leave for the Yale forestry program). I am not sure exactly why that particular story seems so relevant here. I think what it reflected is the way the students submitted themselves to the rigors of the training in formal theory that the program entailed and the way, having done so, they were committed to hold to the theory in their later work as researchers and policy advisors.

For me, the most telling of these stories emerged in an "exit" interview I had with a visiting French student, actually a post doc, as he was about to leave at the end of his postdoctoral year to return home. This guy had been, by common consensus in France, the most promising Marxist doctoral student (a student of Robert Boyer who was the leader of the French Regulationist school. He was an "Olympian": He had been training, as it were, in math throughout his formal education in a way that I think only the French can train. When we talked, as he was leaving MIT, he was in despair. He found the intellectual give and take among the theorists the most intense and exciting intellectual experience he had ever had (or ever imagined having). But it all took place within the set of theoretical assumptions of neoclassical economics and carried strong ideological implications that he found abhorrent. He wondered whether one could keep up with these theoretical developments working alone, alone outside of MIT. And he was quite sure that you could not produce a critique of comparable rigor from outside, let alone a model reflecting an alternative ideological perspective.

Duncan left MIT in 1973 to go to Stanford for family reasons, and I wonder if he would have turned toward Marxism in quite the way he did if he had stayed. He is certainly the only member of the faculty who did so. The number was of course much larger at Harvard, and there were MIT graduates on the faculty of Harvard who did so; these were the seminar speakers who provoked the strong reaction when they came back to talk to the Graduate Economics Forum. But the interactions among the faculty – and between faculty and students – at Harvard never had the intensity of those among the younger faculty at MIT, and in those days, theory was taught by people who came to Harvard late in their careers.

The Attractions of Marxism

Those of us who did turn toward Marx found a variety of different things. An important part of the attraction, which I think most of us shared – certainly Duncan and I – was, as I have already suggested, that it recognized the forces which seemed to be moving American society in the late 1960s and 1970s in much the same way that Keynesian economics recognized the forces moving the society in the Depression and the earlier postwar decades, and incorporated them into an analytical framework which recognized the economy as well; indeed, which made the economy the central focus and showed how it impacted other human concerns and values. It offered, moreover, a moral vision, and it made claims as a science in much the same way that conventional economics did. In other words, it promised essentially the same analytical rigor and moral relevance that the neoclassical synthesis offered to our professors who had lived through the Great Depression and promised to us when we were initially attracted to economics, but it spoke in a way that conventional economics could not to the dominant moral concerns of the time.

But beyond this, Duncan and I were attracted to very different aspects of Marxism. For me, Marx offered something which economics theory did not: a theory of history and of social conflict. It appealed to that side of me which came out of labor economics and industrial relations but it provided a way of problematizing the theory in which I had in effect been raised and a bridge into a whole realm of social science theory which not only was not part of my education, but of which my education had left me completely unaware. Indeed, it was through Marx that I really discovered the roots of industrial relations in institutional economics and the Wisconsin School. That these were intellectual traditions which linked the concerns of industrial relations directly and intimately to high economic theory was an added bonus—a major bonus I would add—but not what attracted me in the first place.

The Limits of Marxism

But while Marxism opened for me a whole domain of intellectual inquiry and social theory, Marxism itself ultimately proved limiting. The evolution of society has not followed the path that Marx predicted. The social conflicts that have dominated American society from the 1960s onward have not been about class in the economic sense of the term but about race, sex, and other identities which Marx and his followers barely recognized; technology has evolved in a very different direction as well. Thus, while Marx is an important referent in my intellectual development, my sense of how economics, and of social theory more broadly, needs to develop derives as much from a critique of Marx as from Marxian theory itself, in fact it probably derives even more from a critique of the critique which Marxian theory offers to conventional economics.

I have no warrant to speak for Duncan, but I think that what he found attractive in Marx were a very different set of insights—a set of insights that basically have to do with the role of money in the economy. The role of money has been at the center of Duncan's research from the very beginning. His initial ambition was to insert money into the heart of conventional economic theory, building it into a general equilibrium model. The notion of the "core" is in that sense a metaphor for his theoretical preoccupation. But in a deeper sense, this ambition is in conflict with the whole enterprise of conventional theory. That theory starts from a definition of economics as a discipline that is rooted in a tension between limited resources and unlimited desire. That tension is conceived of as a reflection of nature itself; it is about "real things". In this sense, money can facilitate the operation of the economy, but a view that it will fundamentally change economic relations and the analysis of the ways it might do so is alien to the spirit of the enterprise. In conventional economics, money almost has to be viewed as a veil on the operation of the real world, which theory can legitimately abstract from in order to focus on the fundamental forces.

Marx on the other hand starts from the proposition that the very nature of capitalism is the separation of the economy from the real goods and services it produces and distributes, i.e., the separation of use value and exchange value. (I say in deference to my graduate theory professors that use value and utility are not quite the same thing but in this context they might as well be.) In pre-capitalism—as in standard economics—people think in terms of real things, commodities not in the abstract, but as very specific goods and services. They convert those things into money so as to facilitate the process of production. But basically they are interested in obtaining more real goods and services $C > M > C'$. But capitalism inverts this relationship: people become interested in money and in goods and services not in themselves but for what they represent as money. The direction of causality is reversed and the economy is motivated by $M > C > M'$. This is a completely different way of looking at the operation of the system; indeed, it is a completely different system. And while Marx himself may have had relatively little to say about it, it leads into a different intellectual territory.

This insight of Marx, unlike his insights into social class or the technological trajectory of the system, has not, I think, been overtaken by history. In fact, in a certain sense, the financial crisis and its aftermath have brought these issues back to the fore. The sense in which this is true is clear, and the continuity in Duncan's own intellectual trajectory is evident in his 2009 Barnard Lecture.

This is of course not apparent in public discourse. What is being proclaimed is not a Marxian renaissance but a Keynesian one. What is striking, however, is how little the economics of the crisis resembles the economics that attracted us to the discipline in the 1960s when Keynesian economics was at its prime. It is not just that the immense self-confidence and optimism of the earlier period, the sense that we had mastered our environment, has been lost (even as the crisis has pushed the issues which sapped that self-confidence in the late 1960s and 1970s to the very margins of political debate), but more importantly, the intellectual unity and coherence which the discipline then seemed to have is gone. It is as if we face not one crisis but three, each engendering its own discussion and debate.

The first of these crises was of course the financial crisis, which reached it pinnacle in the fall of 2008. The second is the crisis in the real economy which ensued with its the high and persistent rates of unemployment (not simply of labor but, significantly, of all productive resources). The third is the recovery which has yet to be achieved. Keynes had a lot to say about all three crises. He wrote extensively about the finance and the financial crises of the post-WWI period which fed into the Great Depression; it is these writings that have recently attracted the most attention and this is what the rediscovery of Keynes is mostly about. But the Keynesian economics of our graduate education in the 1960s, of Kennedy's Council of Economic Advisors and his 1962 Yale address had virtually nothing to do with this piece of Keynes. It focused on government fiscal policy as an instrument for managing the economy, and its lessons for the present time are about how to meet the crisis of persistent unemployment in the real economy through an expansion of Federal expenditures, in short the stimulus package. In retrospect, however, this is more a lesson about welfare policy than the economy, and certainly not of mainstream economics. As I have just noted, mainstream economics defines itself by scarcity (limited resources and unlimited desires), but the unemployed resources of the Great Depression and of the current period are free – if they are not employed by government they will go to waste. In others they are not scarce. And, Keynes was quite explicit about this, some other logic is required. But that logic, whatever it is, will not bring about a recovery. The government expenditures which draw the unemployed resources into production will have a multiplier effect on private expenditures, on consumption and investment and thus bring about an expansion. But as soon as they are withdrawn the multipliers will operate in reverse and the economy will fall back into recession (what Keynes called a lower level equilibrium trap). On how to produce a genuine recovery, Keynesian economics, it is apparent at least in retrospect, has very little to offer. And actually on my own reading Keynes himself offered very little either. What is called for is an integrated understanding of all these crises, or, rather what one would say if one had such an understanding, the crisis in all three of its phases.

This is exactly what Duncan offered in his 2009 Barnard Lecture (Foley, 2009). The lecture seems particularly prescient because it predicts at that relatively early moment of time the inability of the stimulus package to produce an economic recovery.

But its intellectual interest is the way in which it works from Marx's insight about capitalism to develop an integrated framework for an understanding of the crisis. I have to say that the social critique and sense of history which are so central to a Marxian approach are not so well integrated into the analysis; they crop up largely at the edges. But the paper is definitely a sign of the consistency of Duncan's research program and to its power. And in the current climate of pessimism about economics as a discipline and the economy as a human enterprise, it is a shining light, one which I think might attract students to the discipline in the present decade in the way we were attracted by the ideas spawned by the Great Depression.

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