

## Hello Marxism, Goodbye Leninism

*Marx's Revenge* by Meghnad Desai; Verso, London, 2002; pp 372, £ 19.

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This book has many strands, rather like plots within plots, reminiscent of an age of fictional innocence, perhaps sometime before Derrida. Arguably, it has only one message, however. The two principal strands are the history of economic thought and the history of capitalism, or of alleged efforts to supplant it – as the Soviet Union was constructed by its apologists – which in reality were no more than an alternative form of capitalism. Of Marx's vision of "...a society fully self-conscious of its workings, and able to direct them, where individuals are not alienated from their work, or from themselves, but fully participate in their self-emancipation, and realise the full potential of the species-being that they are – in other words, Socialism beyond Capitalism" (p 317) we have not seen anything yet! Though the strands are various, the message that the author conveys is singular. It is that capitalism has triumphed in the 20th century, an outcome that was far from assured at the beginning of this period when Europe at least had seen the twin development of a militant workers' movement and an internal crisis of capitalism.

Capitalism has triumphed in two ways. First, it has overcome the most trying crisis in its history – the Depression (the commonly used prefix 'Great' has a medieval-European air about it, suggesting something god-given – as the plague was believed to have been – or at least beyond human comprehension. After Keynes, it cannot be said that we do not understand this outcome.) Secondly, capitalism has outlived any intellectual challenge from socialism as historically practised. This is entirely due to the collapse in 1989 of the Soviet Union, which in its time had been seen by both sides as a living challenge to capitalism as epitomised by the US. This collapse itself was inevitable from a Marxian (though not necessarily from a Marxist, as defined by those who had acted in Marx's name) perspective, for Marx had visualised Socialism Beyond Capitalism not Socialism Outside Capitalism. Socialism Outside Capitalism, which is what the Soviet leadership had attempted, was at best chancy and almost always an impossible project for, by definition, the forces of production would not have developed as much as needed to sustain socialism, and as they would have developed if capitalism had been allowed to mature. And, to engage in exegesis, this triumphant capitalism is metaphorically Marx's revenge against statist socialism which had existed from the Soviet Union to Kampuchea, for not only had he explicitly envisioned a society where the state would literally wither away, but, more to the point, nowhere had he suggested it wise for a bunch of adventurers to capture state power and unleash an experiment in his name. This would not even have been worth mentioning had not murder and despotism been justified as necessary for the eventual attainment of socialism as envisioned by Marx. Not even Stalin, who had tyrannised the Soviet Union and Poland for over 25 years, had considered it wise to act without the shield of a sham called 'theory' by his camp followers, one ostensibly derived from Marx.

Now, finally, since the last decade of the twentieth century, after a long interregnum of national capitalisms in the west and their 'socialist' counterparts in Eastern Europe, we're back to the sort of capitalism that Marx would have approved of, capitalism without borders or global capitalism from which the world had departed after the first world war, only to invite in the form of the Depression the gravest economic crisis ever encountered. Indeed globalisation is to be welcomed, for capitalism is thus far unrivalled in its ability to develop the forces of production –

'productivity' in contemporary parlance – and the only kind of socialism worth having – the sort that Marx had had in mind – is Socialism Beyond Capitalism, one that follows mature capitalism. From this perspective the world is a promising place again, now that the Leninists have exterminated themselves and the 'little Englanders' have been dragooned into the whirligig of a truly global capitalism.

But what we may ask are the promises of a swift transition to socialism now that authentic capitalism is here? None whatsoever! And this ought not to dismay true devotees of Marx, for Marx had not seen himself as a soothsayer but a radical observer of capitalism. So sorry, the master has not left you a timetable. Hence Desai's parting line that while Marx has had his sweet revenge on the barbarians who had murdered in his name, we do not know whether he will ever get his true reward, which is Socialism Beyond Capitalism.

Surprisingly in a book on the career of Marxism, the author devotes a considerable amount of space to the development of economic theory and economic history in the west. This of course is done to provide an account of the rise, through the last quarter of the 20th century, of the idea of the superiority of the market in the popular mind. Appropriately, a great deal of space is devoted to the decline of Keynesianism. Desai is of course right in identifying the seventies as a tight spot for Keynesian policy-makers in a Britain riven by inflation and slow growth, and is quick to point to the oil-shock as only one of the factors contributing to the malaise. Not only was the oil shock unexpected, it was a possibility not accounted for in the theory. With hindsight, we can now see how the oil shock had brought stagflation, but at that time it had introduced a phenomenon that Keynesian theory had not envisaged, and, worse still, Keynesian policy tools were incapable of dealing with. The magnitude of the terms-of-trade shock may be gauged from the estimate that the oil-shock amounted to an outflow the equivalent of 5 per cent of GDP of the oil-importing countries. This much is well accepted by now. However, Desai adds fresh insight by pointing out a problem for Keynesian policy in liberal democracies with strong unions in that at low levels of unemployment expansionary policy generates inflation via a tight labour market. The point is that inflation is not always the mere increase in the price level that it is in both Keynesian and in monetarist theory but inflation can redistribute as well, as it did in UK during what was seen as the crisis of Keynesian economics by most – recall Hicks's book titled thus – but was really a crisis of capitalism, exactly as Marx had prophesied. Only the young British Marxists Glyn and Sutcliffe, demonstrating a rare prescience, could actually point to the profit squeeze at that time.

Where Desai goes overboard though is to privilege Lucasian macroeconomics in bringing Keynesianism to its knees. While the truth is more like that too much had been pinned on the universal efficacy of Keynesian policy whereas it was now seen to be failing in the face of an increasingly complex world, a feature of which was a powerful financial sector committed to the free movement of capital and low inflation, economic activity be damned. On the other hand, we are presented with a story that the demise of Keynesian theory was inevitable following the irresistible rise of conservative economic theory from von Hayek to Robert Lucas. Surprisingly for an economist of such self-assurance, Desai appears breathless in the face of Lucas's arguments. It is right of course to say that if one first insists on a seamless web between micro and macroeconomics, and then asserts that markets clear at the micro level, we can no longer make sense of a macroeconomic disequilibrium, which is what involuntary unemployment is. However, if you start out by insisting that all markets clear there is nothing left to be discussed. This dogmatic insistence on market clearing is in fact an example, provided by Desai himself in a different context, of the strange practice of economists to insist that what does not make sense in their theory – such as the emergence of involuntary unemployment – cannot exist in

practice. Of course, there is a well developed microeconomic theory, of Walrasian general equilibrium. However is this model all that is cranked-up to be, one might ask? Not even the fluid imagery of tatonement – translated, alas, into ‘groping’ by the less refined Anglo-Saxons – can guarantee the absence of ‘false trade’ or exchange at non-equilibrium prices, the possibility of which must be acknowledged, for the adjustment to equilibrium must take place in real time after all. Now the outcome of market-clearing requires an auctioneer who – having collected all information on supply and demand schedules – announces the equilibrium prices in the town hall. This crude instrumentality intrudes into an otherwise fantastic world and renders the promised invisible-hand naked after all.

Moreover the Walrasian model has no use for money other than as a numeraire commodity as there is no future, or even when there is one as in Arrow-Debreu, there is neither saving nor accumulation. Introducing money and uncertainty into the model opens up the problem of proving the existence of an equilibrium, as clearly observed by Frank Hahn. When agents are allowed to hold expectations, multiple equilibria emerge merrily out of the woodwork. Lucas is able to overcome this by assuming so-called ‘rational’ expectations which ensure that all agents hold the same model. But this is not enough for him to generate policy ineffectiveness. This requires the further assumption of all agents holding a model in which policy is neutral. How is this rationalised? By assuming that markets clear continuously and instantaneously. Now the only hope left for the wretched Keynesian policy-maker is to fool the suppliers of labour – each always on their supply curve, for remember that we must have ‘microfoundations’ and there cannot be involuntary unemployment by assumption – into believing, via generalised inflation, that the real wage has increased. If there are no distributional consequences of inflation, then why is inflation bad as held by the Chicago School. It is bad, for when not anticipated it generates cyclical growth. Why, armed with ‘rational expectations’, do agents predict inflation wrongly? Because, there is an informational asymmetry between the government and private agents as far as policy matters go; in this case on the growth of the money supply which the government alone controls and which alone causes inflation. If the potential supplier of labour cannot predict the inflation rate s/he cannot disentangle the change in the real wage from the change in the monetary one. But why don’t private agents detect changes in the general price level when they do detect the change in the contemporaneous change in their own price? Because they live on islands and go out by boats to trade with other islanders only once in a day. By now the parable begins to appear as a fantasy and one begins to appreciate the agony of the graduate student who upon hearing of Robert Lucas’s allegedly giant-killing idea asked “But why don’t they read the newspapers?”. One also appreciates Joan Robinson’s suggestion that once you’ve put the rabbit into the top-hat in full view of the audience, there’s not much point to pulling it out a little later, in full view at that. I say this despite my unalloyed admiration for the Lucas Critique as a piece of induction. Of course, this insight into the impossibility of econometric policy evaluation is a separate issue, not model specific in the way that the policy ineffectiveness result is dependent on a Walrasian model being the true representation of the world and of all agents having learnt this by the time the Keynesian policy-maker is actually attempting to crank up the economy. It is indeed somewhat of a puzzle that so distinguished an economist as Desai has stopped short of providing an evaluation of Lucas’s work while crediting him with demolishing Keynesian economics. After all, he is himself the author of a timely econometric study of the central propositions of the new classical macroeconomics, *Testing Monetarism*, a book that we had all read avidly when it was published two decades ago. Either, this is yet another manifestation of the closed shop among economists called ‘theory uber alles’, or in a temporary exit from a robust British empiricism, Desai, true to his roots among the thought elites of India, displays a partiality to (the) ‘cunning (of) reason’, no matter how absurd the argument!

The other weakness in the argument advanced by Desai is a somewhat sanguine approach to the current global order. As I have mentioned, Desai sees this as the sort of capitalism that Marx had in mind, one without borders so to speak. Is this a true representation of the current state of the world? Clearly not! In fact, it is far from the truth, for labour is not free to move internationally. Such a regime privileges capital; indeed at long last it has been freed from labour as observed by Ampalavaner Sivanandan and quoted approvingly by Desai. Marxian class struggle is now muted, for capital can find reserve armies of the unemployed all over the globe never fearing challenge. Now western advice that the developing countries must permit capital convertibility and encourage foreign direct investment is entirely governed by self-interest rather than dispassionate economics as it is inevitably made out to be, even when it has benefits for the recipients among the developing countries. Bill Clinton travelled the world speaking on behalf of American capital; however, development advice emanating from the west is largely silent on migration despite its hugely beneficial effects in theory and for the west in particular historically. In an unusual departure though, the World Bank has proved to be the sole spokesperson for immigration by the world's poor to its more developed regions. In 'kaliyuga' the world is rendered topsy turvy! But, back to the truism that a world economic order without mobility of labour is not global capitalism by any stretch of the imagination. Capitalism with unfree workers – except in Communist Poland, of course – was very likely the dream of Reagan and Thatcher. It certainly was not Marx's.

Even as I point to these lacunae, I am reminded of Arunava Sen remarking how we are prone to mistaking the pail of water for the ocean from which it has been drawn. *Marx's Revenge* ranges over many more issues than the ones that I have flagged here. Mine are at best minor quibbles with the work of a master economist. Meghnad Desai has written us a grand book, and aired for us an even grander thesis. Here, laid out with aplomb, are, probably for the first time, the greatest debates in economic theory, subsequently evaluated in relation to the sweep of human history. Nuggets float towards you in the midst of all this, such as the insights that over the long haul capitalism increases inequality but undoubtedly raises the standard of living; that foreign direct investment can empower women, indeed that the women's movement has largely taken place outside the standard political framework of Left and Right; that Japan's economic success conclusively proves brutal repression is not necessary for a poor country to industrialise. And crucially for India, where all parties but the BJP claim to be socialist, that Socialism Within Capitalism – the only kind of socialism left for our consideration once one discounts Cuba and North Korea – is entirely dependent of the success of capitalism, for redistribution and public goods are not independent of the resource base of the economy. Therefore, politicians who bludgeon incentives in the belief that they are advancing socialism can end up killing the goose that lays the golden egg. I hope that this brilliant book will be read widely in India which is seldom outside the author's ken, and expect that it will please its readers as much as it did me.

Published by Verso for New Left Books, in the spirit of global capitalism, the book is typeset in Cochin by SetSystems of Saffron Walden and printed by Biddles of King's Lynn, England. It is a sensualist's delight. A visually Bonapartist Marx on a dust jacket in burnished Bennetton colours, a pleasing font and the near-flawless proofing are each a reminder that 'leftwing' need not mean 'drab'. I was reminded of watching Germaine Greer remark "I'm a Socialist, and I like good clothes!".