

The End of ‘Cheap Ecology’ and the Crisis of ‘Long Keynesianism’

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It is the crisis of negative Keynesianism that is at the heart of the current critical point, and which is leaving its global institutions – the World Trade Organisation, the International Monetary Fund and the World Bank – with no solution other than transferring the costs to the South (and to the South within the North). By adopting this logic, the United Nations climate summit in Copenhagen followed exactly in the footsteps of these institutions. The failure of the Copenhagen climate talks is indicative of the depth of the crisis of “long Keynesianism” that has exhausted its positive and negative ways of dealing with the “unsustainability” of global capitalism.

Something is rotten in the state of Denmark
– Shakespeare, *Hamlet*, Act 1, Scene 4

If everyone on earth consumed like the average American, the Global Footprint Network (2009) calculates, it would take the resources of five planets to sustain it. If everyone lived like the average European, it would require the capacity of 2.5 planets. The United States and Europe are responsible for 80% to 90% of the greenhouse gas emissions that are currently in the atmosphere. Yet in Copenhagen, the United States tried to lead a compliant Europe towards a climate agreement that would have shifted the costs and burden of the climate crisis from the overconsumption hubs of the world economy to the low-wage regions of forced underconsumption. This bizarre contradiction was expressed in the statement by Todd Stern, the lead US climate negotiator in Copenhagen. As if confession absolves responsibility, he said: “We absolutely recognise our historic role in putting the emissions in the atmosphere up there that are – you know, that are there now. But the sense of guilt or culpability or reparations, I just – I categorically reject that” (Broder 2009). In the true spirit of neoliberalism, the climate summit turned into a convention for shifting costs to the weaker competitors and privatising solutions to the climate crisis such as the global commodification of pollution rights through carbon trading.¹ That this was a battle about “accumulation by redistribution” can be seen in a recent *Wall Street Journal* (2009) editorial which observed in a camera obscura fashion:

More than anything else, Monday’s walkout revealed the real reason that the developing world is in Copenhagen in the first place: They see climate change as a potential foreign-aid bonanza, and they are at the

table to leverage the West’s environmental angst into massive transfers of wealth.”

If this shows the *unreality* of the upside-down world to which the last remnants of neoliberals are clinging, the *real* limits of bourgeois solutions to the climate crisis can be seen in the hopeless wavering of the neo-Keynesians between an all-out support for a vast global commodification of pollution rights (in the cloak of cap and trade environmentalism) on the one hand, and the imposition of a carbon tax on the other.² The “great lacuna” in Keynesianism, to borrow Bello’s words (2009), is that it has never understood (or never had to understand) the ecological contradictions of high consumption capitalism. National Keynesianism was always a model that worked within a definite “time-space”. Over the “long time”, as Kalecki (1943) presciently predicted, it would lead to (wage) inflation, and over the “long space”, it would lead to ecological disaster.

The ‘Long Keynesianism’

Keynesianism, nonetheless, has been re-emerging as the alternative to neoliberalism (Davidson 2009; Skidelsky 2009) – an alternative that is being embraced too uncritically by the progressives who everyday become more disappointed by how closely Obama follows in the footsteps of his predecessor. As I will argue, Keynesianism today, especially when it comes to the future of world ecology, is theoretically and practically as unpromising as its neoliberal “counterpart”. Those who construct “global Keynesianism” as a counter-alternative to “global neoliberalism” disregard that both perspectives have a shared history of externalising the environment. Part of the problem stems from the relatively undertheorised status and vagueness of the term “neoliberalism”.

Historically, as Hartwich (2009) shows, the term was first used in Germany in the interwar period to denote “a third way” between laissez-faire capitalism and socialism, or what became known in Germany in the post-war period as the “social market economy”. In more recent usage it was seen as the bundle of economic policies such as privatisation, deregulation, trade liberalisation, removal

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of subsidies, and free flows of capital that were adopted in the 1980s. In this sense the term came to be associated with the so-called “Washington Consensus” (Williamson 1990), or more critically as “Market Fundamentalism” (Stiglitz 2002; Somers and Block 2005). In Polanyian (2004) interpretations, neoliberalism refers to state policies that undermined the post-war “embedded liberalism” (Ruggie 1982; Blyth 2002; Harvey 2005). While Marxist critiques have specified the social content of neoliberalism as “accumulation by dispossession” (Harvey 2003), “accumulation through encroachment” (Patnaik 2008) and “accumulation by displacement” (Araghi 2000, 2009), its exact relationship with Keynesian economics has remained ambiguous. Indeed, those who extract a *theory* of “cyclical determinism” or “pendulum shift” from Polanyi’s *historical* account of the “double-movement” (from economic liberalism to protective regulation) construct neoliberalism as the *opposite* of Keynesianism. “Global Keynesianism”, in these accounts, appears as a rational alternative to global neoliberalism (Mead 1989).

Challenging these positions, this paper argues that neoliberalism is neither the opposite of Keynesianism, nor is global Keynesianism a possible alternative to global neoliberalism. I pose “neoliberalism” as a moment *within* Keynesianism and show that from being an antithesis to it, neoliberalism was the Keynesian response to its own contradictions. Reacting to wage inflation and stagflation at home and unruly developmentalism abroad (Arrighi 1994; McMichael 2008), it used the state (and supra state) intervention to *shift the basis of demand management* from wage contracts and the “development compromise” (Araghi 2009) to micro and macro credit and debt-based globalisation.

It was this strategic shift from “positive” to “negative” means of managing effective demand, rather than abandoning the Keynesian system altogether that was a core element of the neoliberal “innovation”. In the United States, the shift in the basis of effective demand management involved abandoning wage contracts with built-in mechanism for negotiated wage increases through collective bargaining to wage *deflation* (via de-unionisation, “flexibilisation”,

and globalisation) coupled with financing of the effective demand through socialisation of credit. These two strategies of demand management were not mutually exclusive, but they expressed the historical meaning of demand management under productive and finance capitals respectively.

A similar case can be made for the second pillar of Keynesianism, that of state deficit spending, which has been a constant feature of negative and positive Keynesianism (in the form of military Keynesianism in both periods, public spending in the first period and subsidising the private sector in the second period). Much has been made of the term “deregulation” as an *anti-Keynesian* feature of “neoliberalism”, but it was not *deregulation* as much as *negative* regulation that characterised the ending decades of long Keynesianism. Indeed, the rhetoric of anti-Keynesianism and “deregulation” was more a discourse about dismantling national-developmentalism in the postcolonial world and the wage contracts and welfare states in the North rather than an actual abandonment of Keynesianism. As Paul Krugman (2001) acknowledged:

It wasn’t true when Richard Nixon said it, but it is true today: We are all Keynesians now – at least when we look at our own economy. We give anti-Keynesian advice only to other countries. When it comes to the US economy, everyone – including people who imagine that they have rejected Keynesianism in favour of some doctrine more congenial to the free-market faithful – in practice views the current slowdown in terms of the intellectual framework John Maynard Keynes created 65 years ago. In particular, everyone thinks that during a slump what we need is more spending.

In the Long Run Keynesianism Is Dead

Hence just as negative Keynesianism, that is, wage deflation accompanied by financialisation of demand management in the North (and “forced underconsumption” in the South) expressed the contradictions of wage inflation and stagflation under positive Keynesianism, the current global crisis expresses the contradictions of negative Keynesianism. The current crisis, in other words, should be seen as a moment within the crisis of the long 1970s when “negative Keynesianism” in free-market clothing (or what became known as “neoliberalism”)

was the *political* response of capital to the contradictions of “positive Keynesianism” (wage-labour contracts and effective demand management leading to “wage inflation”, amidst competitive pressures and expansion of democratic rights). “Negative Keynesianism” was *negative* in the sense that it broke up the post-war wage/social contracts and violated the “development compromise” in the postcolonial world; it was *Keynesian* in the sense that it continued with effective demand management via socialising credit as a component of wages and the global debt regime as a component of restructuring the postcolonial nation state based divisions of labour. This involved, as is now well known, the rejection of the (positive) Keynesian social contract via “globalisation”, i.e., special and temporal mobilisation of capital, flexibilisation, de-unionisation, and casualisation on the one hand, and the massive expansion of indebtedness as a solution to *mass consumption with low wages* on the other. *Debt became the continuation of policy by other means*, as credit and microcredit substituted wages to solve the Keynesian effective demand problem.

This characterisation of “long Keynesianism” (as a contradictory unity of liberalism and neoliberalism) would allow a better exploration of the relatively under-theorised phenomenon: The global institutions of positive Keynesianism (the World Bank and the International Monetary Fund (IMF)) were transformed under negative Keynesianism from development institutions to enforcers of a global debt regime aimed at the construction of mutually dependent export-based and *consumption-based* economies.

It is precisely the crisis of negative Keynesianism that is at the heart of the current crisis, and which is leaving the global institutions of negative Keynesianism (the World Trade Organisation (WTO), the IMF and the World Bank) with no solution other than transferring the costs of the crisis to the South (and to the South within the North). By adopting this logic, the UN climate summit in Copenhagen followed exactly in the footsteps of the institutions of negative Keynesianism. In doing so, it also adopted the WTO’s recent past as its own future. In fact, Yvo de Boer, the executive secretary of the United Nations

Framework for Climate Change made the explicit comparison between the WTO and the future of the climate talks: “The worst case scenario for me is that climate becomes a second World Trade Organisation”, he said in an interview last year (quoted in Monbiot 2009).

His worst case scenario came through in Copenhagen. More directly, the failure of the Copenhagen climate talks is indicative of the depth of the crisis of “long Keynesianism” that has exhausted its positive and negative ways of dealing with the “unsustainability” of global capitalism. The fantastic desire for a pendulum shift, in the form of a return to positive Keynesianism, fails to see that post-war Keynesianism was (1) an externalising regime fundamentally standing on the shoulder of the “cheap oil regime” of 1953-73, and (2) that the mass consumption component of high wage Keynesianism in the North was always standing on the shoulder of “forced underconsumption” in the South (Araghi 2003; cf Patnaik 2008). Precisely for these reasons, green and global Keynesianism is a contradiction in terms.

The Crisis of ‘Long Keynesianism’

What the experience of Copenhagen shows is that global capitalism has even deprived itself of short-term and reformist remedies. Copenhagen was to the world what the healthcare reform was to the United States. What Obama has called a “meaningful and unprecedented breakthrough in Copenhagen” is a *non-binding* 12-page document that proposes to restrict global warming to a two-degree temperature rise *with no timetable*. As a recent study by a team of geophysicists from Harvard and Princeton shows, “an additional two degrees of global warming could commit the planet to 20 to 30 feet of long-term sea level rise. This rise would inundate low-lying coastal areas where hundreds of millions of people now reside” (Barnes 2009). Produced behind closed doors, it is a document that highlights the condition of a falling hegemon: all demands but little to give, self-referential and unable to lead. The US would readily offer trillions of dollars to its banks in two years, but in Copenhagen all it could offer was “to work with other countries towards the goal of jointly mobilising \$100 billion a year by

2020”. As the *Wall Street Journal* (Ball 2009) pointed out: “As for the \$100 billion a year by 2020, US officials said the vast majority of it would come from the private sector, in particular through the buying and selling of ‘carbon credits’, and not from government coffers”. Ironically, whatever the US contribution to this joint mobilisation, it will probably come from borrowing from China.

What was rotten in Copenhagen is what is rotten about a social system that is parasitically consuming life, labour, and nature as it is dying. Cancerous growth and parasitic consumption, the two pillars of historical capitalism cannot provide a solution to the dual crisis of the world economy and ecology (Foster 2000). It is time to pose global eco-socialism as an alternative to both positive and negative Keynesianism.

NOTES

- 1 For an excellent and well-documented discussion of carbon trading as commodification, see Lohmann (2005, 2006).
- 2 See the recent exchange between James Hansen (2009) and Paul Krugman (2009) in the *New York Times*.

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