



The Gospel of Co-operative Capitalism:
Acolytes and Apostates

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Abstract

The present paper seeks to locate the Bhaduri-Marglin (B-M) model as an historical outcome of the Left's internal disputes over the prospects for social democracy. In better contextualizing the B-M model as a historical response to the perceived political economic failings of the social compromises upon which the growth of post-War advanced capitalist economies had rested, both the model's popularity and its potential limitations can more easily be understood. Though the B-M framework has frequently come to be referred to as *the* neo- or post-Kaleckian growth model, such labels perhaps obscure the model's diverse ancestry. The model constituted an attempt to reconcile seemingly incompatible theoretical perspectives, and to highlight those special conditions that made possible a 'Golden Age' of social democracy. Moreover, they sought to show that the conclusions of Keynesian social democrats and of radical Marxists could be viewed as two possible outcomes of the same broadly Keynesian theoretical framework in which investment played a leading role. While this synthesis has fostered a vast literature and useful dialogue, it is argued that it should, nevertheless, be seen as the outcome of a generation Left social scientists that had become deeply skeptical of the possibility of egalitarian redistribution under capitalism, and of the political ambitions of Keynesian and social democratic parties.

Keywords

Accumulation; Growth; Michał Kalecki; Joan Robinson; Marglin-Bhaduri

JEL Codes

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1 INTRODUCTION

Seven years removed from the immediate turmoil of the Great Financial Crisis, relative stagnation continues to plague the world's advanced capitalist economies. Within the mainstream of the economics profession, the triumphant heralds of the Great Moderation have given way to varied accounts of secular stagnation. Emblematic of this volte-face is the endlessly adaptable Larry Summers. Our present malaise is, in Summers' view, the product of the slowed growth of population, a more modest pace of technological change, and a burgeoning profit share of national income. Though not impervious to policy intervention, this confluence of trends offers scant ground for optimism that private productive investment will be sufficient to ensure full employment. Countering stagnation will require a "commitment to maintain basic social protections so as to maintain spending power, and measures to reduce inequality and so redistribute income towards those with a higher propensity to spend" (Summers 2014, pp. 38). Summers' proposals, accompanied as they are by calls to improve the confidence of businesses and to reduce the 'structural barriers' hindering private investment, are of course far from radical. It is striking, nevertheless, that such a modest proposal that ties the recovery of growth to redistribution should put Summers at odds with a significant body of economic thought on the Left. Though by no means monolithic, many prominent figures on the Left have come to view traditional social democratic redistributive strategies as not only an exhausted political platform, but also as incompatible with sustained economic growth in contemporary capitalism.

In his forward to the renewal of the *New Left Review* in 2000, Perry Anderson offered what is now a familiar requiem for the post-War historical and social conditions in which the Left flourished. Among those who had once seen the transcendence of capitalism as a genuine possibility, Anderson noted two distinct dispositions consequent to the Left's historical failures. The first was marked by accommodation, and acceptance that the private enterprise system, when accompanied by modest social protections, was a demonstrably optimal form of economic organization. In the other, he saw the Left desperately searching for ways to console itself, seeing in every fragmented social movement and transitory crisis of accumulation the grounds for reasoned hope. For Anderson, the Left should instead adopt an "uncompromising realism" that would refuse "any accommodation with the ruling system, and rejecting every piety and euphemism that would understate its power" (Anderson 2000, pp. 14). Borrowing Anderson's terminology, the Bhaduri-Marglin model can best be seen as an effort to supply such an uncompromising realism. The present paper thus seeks to better locate the Bhaduri-Marglin model as an historical outcome of the Left's internal disputes over the prospects for social democracy. In better contextualizing the B-M model as a historical response to the perceived political economic failings of the social compromises upon which the growth of post-War advanced capitalist economies had rested, both the model's popularity and its potential limitations can more easily be understood.

In the twenty-five years since its initial publication, the Bhaduri-Marglin (B-M) model (1990), though subject to many extensions and amendments, has assumed a central role in the attempts of post-Keynesians to understand the interaction of distribution and accumulation. Seeking to reconcile the apparently intractable theoretical opposition of Keynesian social democrats and radical Marxists, the model plainly demonstrated the demands of co-operative capitalism. For its original authors, the model was motivated, at least proximately, by the desire to formally identify the distinctive institutional features that yielded the post-War accumulation regime of the 1950s and 60s wherein sustained accumulation coincided with marked increases in real wages and productivity. In their analysis, the viability of social democracy had depended on the persistence of a stagnationist accumulation regime wherein the growth of effective demand prompted by rising real wages would act as the overwhelming motive for continued investment, more than outweighing the fall in the profit share of national income. Such conditions were, nevertheless, far from guaranteed as varieties of capitalism might instead assume the form of 'exhilarationist' regimes. In such cases, the tenuous political compromises of co-operative capitalism would inevitably crumble in the face of the technical impossibility of wage-led growth.

As the 'Golden Age' of Western capitalism increasingly recedes from the collective memory, the "gospel of co-operative capitalism" meets with few acolytes (Marglin 1988, p. 10). The B-M model has nevertheless spawned an extensive empirical literature seeking to identify the nature of contemporary growth regimes as either profit- or wage-led. This literature testifies not only to a remarkable degree of consensus among post-Keynesian authors, but also an acceptance that co-operative capitalism is a special case whose technical demands may, or may not be satisfied. With the considerable rise in the profit share of national income witnessed over the past 30 years in many advanced capitalist economies, and the modest

growth that has accompanied it, some authors have strained to see the emergence of an exhilarationist regime. Apart from the reluctant acceptance of the policy prescriptions of the Right implied by this characterization of growth, authors working within this tradition have also tended, until recently, to neglect the role of household debt accumulation in sustaining effective demand. If, as seems increasingly plain, this rise in household debt was the necessary complement to the realization of profit-led growth, the present prospects for revived rates of growth in the absence of social democratic reforms appear grim.

2 KALECKIAN INSPIRATIONS?

Though the B-M framework has frequently come to be referred to as *the* neo- or post-Kaleckian growth model, such labels perhaps obscure the model's diverse ancestry. As Bhaduri and Marglin explicitly note, the model constituted an attempt to reconcile seemingly incompatible theoretical perspectives, and to highlight those special conditions that made possible a 'Golden Age' of social democracy. They sought to show that the conclusions of Keynesian social democrats and of radical Marxists could be viewed as two possible outcomes of the same broadly Keynesian theoretical framework in which investment played a leading role. Moreover, the model offered reasoned doubt over whether it might be possible to recreate the conditions of Keynesian social democracy's golden age, as such stagnationist conditions were "very much bound to particular places and times." It was therefore a mistake to see wage-led co-operative capitalism as anything more than an unsustainable and transitory regime. For Bhaduri and Marglin, the redistributive policies of the Left could only be persistently viable if the linkage between accumulation and profitability was severed.

Reservations regarding the transformative potential of social-democratic movements are deep-seated within the Left and, of course, well antedate the theoretical projects of J.M. Keynes and Michał Kalecki. Even the casual student of Marxism is familiar with the old invectives of "reformism" and "opportunism" regularly lobbed by the keepers of the old-time religion. Still, the contours of this debate were irreversibly altered by the 'Keynesian Revolution,' and by the generation of authors that sought to extend the principle of effective demand beyond the short-period framework adopted by Keynes in the *General Theory*. Beyond the possibility of smoothing the extremes of the business cycle, this theoretical revolution highlighted the potential compatibility of sustained growth with a rising wage share in national income. In dethroning savings from its previously hallowed position, Keynesian theory seemed to offer a potential class compromise in which income redistribution, and lowered rates of interest were the prices to be paid if capitalism was to retain its potential for dynamism and growth. It was Keynes' view that "a great advantage" of the social and economic transformations he had proposed was that they would be "merely a gradual but prolonged continuance of what we have seen recently in Great Britain, and will need no revolution" (Keynes 1936, pp. 376).

Little wonder then that those working within the Marxian tradition should have viewed Keynesian theory with skepticism. Keynes, no doubt, depicted unemployment and the polarized distribution of wealth and income as "outstanding faults," but also as technical problems that could be resolved within the confines of the capitalist mode of production. The image of Keynes provided by Paul Sweezy upon the former's death in 1946 would seem to find resonance among the contemporary Left. Sweezy while directly acknowledging Keynes to have been "the greatest British (or American) economist since Ricardo," saw his great failing in "the inability to see the present as history, to understand that the disasters and catastrophes amidst which we live are not simply a 'frightful muddle' but are the direct and *inevitable* product of a social system that has exhausted its creative powers, but whose beneficiaries are determined to hang on regardless of the cost" (Sweezy 1946, pp. 404).

Having independently arrived at many of the transformative ideas of the *General Theory*, despite having drawn almost exclusively upon Marxist writers and his own empirical research, Kalecki was perhaps the best positioned to critically assess the book's theoretical import and its limitations. As is well known, Kalecki saw the maintenance of full-employment as a relatively simple technical problem so long as the State stood ready to meet the shortfall of private investment. The difficulty, with respect to maintaining full-employment, was political as business leaders and rentiers would rebel against lasting conditions that challenged their extra-economic power.¹

¹ In a telling and prescient comment, Kalecki notes that business leaders "would probably find more than one economist to declare that the situation was manifestly unsound" (Kalecki 1971 [1943], p. 144). That modern 'Kaleckians' might ably play this role was not anticipated.

Much of the lasting character of Kalecki's responses is captured by his first public commentary on Keynes' path-breaking work. In his 1936 review, which first appeared in the Polish language journal *Ekonomista*, Kalecki plainly identified the two instrumental components of Keynes' theory. With respect to the first component, the determination of short-period equilibrium on the basis of the multiplier mechanism and effective demand, Kalecki had no fundamental objections. Kalecki's major objections instead concern the investment function proposed by Keynes. He first notes that Keynes had rightly supposed that a fall in nominal wages would have no beneficial impact on output and employment in the short-run. Kalecki nevertheless saw Keynes' theoretical defense of this proposition as inadequate. As a remedy for this deficiency, Kalecki offers a neat sketch of his own model wherein investment is dependent on expected profitability, a variable that is for firms clouded in some uncertainty, but which firms in practice gauge via current realized profitability. Current profitability is, however, dependent upon past acts of investment spending. Thus a fall in nominal wages does not, in itself, lead to a rise in profitability. Profitability will rise only if firms *immediately* undertake a higher level of investment in the present in response. Failing this, the rise in profitability will be "illusory." Kalecki also seems to suggest that Keynes had not adequately accounted for the impact of the accelerator mechanism. As he describes it, an initial rise in investment will, following Keynes' theory prompt not only a rise in the prices of investment goods, but also a general rise in prices and in output. This expansion suggests that "expectations will become more optimistic and a difference between the marginal efficiency of investment and the rate of interest will arise again. 'Equilibrium' then is not reached and the growth of investment will persist" (Kalecki 1982 [1936], pp. 252). While Kalecki was to later suggest that this otherwise interminable boom in investment would eventually be constrained when firms became limited by his principle of increasing risk, it is clear in this early model that Kalecki views current profitability as only the ephemeral guide of investment. The profits *realized* in the present do not hinge so much on the outcomes of on-going distributive conflicts, but rather on investment spending decisions already undertaken.²

Kalecki's subsequent work maintained remarkably consistent positions relative to this early vision. With respect to his views on the workability of a social-democratic version of capitalism, Kalecki's 1944 essay "Three Ways to Full Employment," is revealing. Here, in the context of a closed economy, Kalecki explores the viability and the efficacy of three strategies that might secure full employment: increased public investment, stimulus of private investment, or a measure of egalitarian redistribution. Consistent in his analysis, Kalecki notes that the volatility of employment and private investment are the consequence of "violent fluctuations in profits." Central to our discussion is the further clarification that "[t]he causation is actually double-sided: a fall in investment causes a fall in effective demand and profits, and this in turn leads to a new decline in investment" (Kalecki 1990 [1944], p. 365, footnote). As in his immediate discussion of the *General Theory*, Kalecki sees current investment and profitability as determined by effective demand in the past. Consequently, while viewing direct government expenditures, whether tax- or deficit-financed, as the ideal means by which to achieve full employment Kalecki does not discount the efficacy of redistributive measures. As he notes, "[c]utting profit margins—either in the form of price reductions of consumer goods or wages increases with constant prices—undertaken within the framework of price control will also increase effective demand and thus make the task of government expenditure to secure full employment easier" (Ibid, p. 376). Thus wage-led growth could not be achieved in the absence of price controls; that is, in the absence of forces that would curtail the degree of monopoly.

The consistency of Kalecki's position warrants further emphasis. In his brief 1970 essay, "Theories of Growth in Different Social System," Kalecki surveyed the dominant theories of long-run growth that had emerged following the *General Theory*. These approaches shared a neglect of problem of effective demand, and a tendency to assume that resources would be fully utilized in the long-run, given adequate price flexibility. Ever the empiricist, Kalecki's concern was that these models might be of little value in

² Kalecki's discussion (1938) of the labor policies of the short-lived Popular Front in France—what he termed the "Blum experiment"—is also instructive. The dramatic rise in nominal wages experienced over the course of 1936, coupled with only modest increases in the deficit relative to national income, offered to Kalecki's mind an ideal natural experiment. For Kalecki, the statistical evidence he had compiled supplied a robust confirmation that a dramatic rise in nominal wages exercised no negative impact on output. Further, Kalecki suspected that the modest increases in the real wages of industrial workers "must have increased effective demand and thus the output of industry" (p. 40). This buoyant effect was mitigated not by a decline in the rate of profit, but rather by the redistributive effects of inflation that transferred income from small rentiers and salaried white-collar workers to entrepreneurs.

understanding past or future patterns of growth, particularly within capitalist economies in which quasi-monopolistic pricing was the norm. Indeed the irony for Kalecki was that maintenance of full-employment by government intervention had also provided “a climate favorable” for a new family of models whose construction was “unperturbed by the problem of effective demand” (Kalecki 1993 [1970], p. 113). Thus for Kalecki the problem of long-run growth within capitalist economies could be adequately treated only if the assumption of full utilization was discarded once and for all. As Kalecki made clear in his final published essay (1971 [1970], p. 163), in typical capitalist economies in which resources remain less than fully utilized “a wage rise leads – contrary to the precepts of classical economics – to an increase in employment” and to a rise in realized profitability. That is, there would be no technical impediment to a process of wage-led growth.

3 ROBINSON’S INFLUENCE

With this understanding of Kalecki in mind, the influence of Kalecki’s own approach on the B-M model appears more slight than is commonly appreciated. Rather than being colored by Kalecki, the modern post-Kaleckian approach arguably draws far more from Joan Robinson’s perspective. There was perhaps no figure more concerned with carrying the mantle of Keynes into the long-run than Joan Robinson. This preoccupation figures early and often in Robinson’s work, having been first clearly articulated in her essay “The Long-Period Theory of Employment” (1936), but it is in Robinson’s mature work that the distinctive features of her long-run growth model first emerge.³ Extending Keynes meant, for Robinson, affording a central place to the paradox of thrift in the long-period as well as the short period, and providing an alternative to the savings-led models of growth that had given new life to Say’s Law. Robinson, though she was one of the great champions of the originality and import and Kalecki’s work, never fully adopted the latter’s approach to the interaction of distribution and accumulation. For Robinson, an extension of the Kaleckian model to the long-period merely demonstrates that investment has inertia; the level of investment in the present is conditioned by its level in the past. The question of why a given trend level of investment is established remains open. The decisive features of Robinson’s approach concern the treatment and formal modeling of the investment decision, and the related assumption that productive capacity would be fully utilized in the long-period. For Kalecki, as we have seen, investment in the present was governed only superficially by the rate of profit, as this rate was, in turn, the result of past investment choices on the part of the capitalist class. A redistribution of real income towards workers, effected through nominal wages increase, while it might prove tenuous and fleeting in a world of oligopolistic pricing, would not necessarily depress the rate of accumulation, provided that the economy operated below full-capacity utilization, and was not heavily export-dependent. The principle impediment to the realization of full-employment accompanied by steady growth was not technical but political. The assumption that excess capacity would persist in the long-period was then a crucial feature of all of Kalecki’s work. Indeed his well-known comment that “the long-run trend is but a slowly changing component of a chain of short-period situations” can be understood in this way (Kalecki 1971, p. 165).⁴

The approach pursued by Robinson instead centered around what is now known as the Cambridge Equation, the proposition that accumulation at any given moment in ‘logical time’ served to determine income distribution through the rate of profit. Moreover, Robinson assumes that competition in the short-period leads firms to produce at “normal capacity” in the long-period, a point of production beyond which a “seller’s market prevails and capacity is being strained” (Robinson 1962a, p. 46-7). Investment in the present is then dependent upon the rate of profit firms expect to obtain in the future. Though in tranquil conditions the currently prevailing rate of profit might serve as the best proxy for the expected rate, investment is ultimately governed by animal spirits. Trend growth is thus determined by “the propensity to accumulate inherent in the system. It is steady or fluctuating according as it operates in tranquil conditions which generate inertia, or in a chancy world where uncertainty makes expectations volatile” (Robinson

³ As noted by Heinrich Bortis (1997, p. 205), Robinson’s framework along with much of the Kaleckian-Robinsonian tradition might be more accurately understood as a medium-term “business cycle-cum growth” theory.

⁴ Kalecki also closes his discussion in this essay with the comments that “in our approach the rate of growth at a given time is a phenomenon rooted in past economic, social and technological developments... This is, indeed, very different from the approach of purely ‘mechanistic’ theories (based frequently on such fallacious *a priori* assumptions as a constant degree of long-run utilization of equipment), but seems to me much closer to the realities of the process of economic development” (Kalecki 1971, p. 183).

1962a, p. 87).⁵ For a given propensity to consume out of profits, and in the absence of savings by workers, the rate of growth serves to realize the profit rate expectations that originally motivated accumulation (Ibid, p. 71). Growth is thus led by *expectations* as to the rate of profit. At full employment, optimistic turns of expectations will raise the desired rate of accumulation, pushing against the capacity barrier at which the economy operates. Thus through rising prices, and the consequent fall in real wages that the rate of profit is enabled to rise in the next moment of logical time. Robinson's inflation barrier poses the functional limit to this logical chain of events. It is only once real wages have fallen to the minimum level deemed socially acceptable that the resistance of labor to further cuts in real wages arrests further rises in the rate of profit (Robinson 1962a, p. 13, and Robinson 1956, p. 48-50).⁶

As was her habit, Robinson's formal models are littered with reservations about the applicability of such analysis to actually existing economies. In her attempt to summarize the varying perspectives on growth she concludes that “[t]hese models are all too much simplified and too highly integrated for it to be possible to confront them with evidence from reality” (Robinson 1962a, p. 87). Elsewhere, in *Economic Philosophy*, she notes that “[t]o understand the motives for investment, we have to understand human nature and the manner in which it reacts to the various kinds of social and economic systems in which it has to operate. We have not got far enough yet to put it into algebra” (Robinson 1962b, p. 107, emphasis added).⁷ Thus Robinson seems generally to have pursued these models as deductive thought experiments not susceptible to empirical testing. Certainly, any plain dismissals of wage-led growth as viable political strategy are absent.

4 THE STAGNATIONIST TRADITION

The roots of the stagnationist perspective on capitalist development are not then to be found in Kalecki and Robinson's own work. A comprehensive account of all those perspectives that have claimed for capitalism a tendency towards stagnation is beyond the scope of this paper. In focusing our attention on the evolution of this perspective in the 20th century we can, nevertheless, be instructive. Though the most consistent and vocal champions of this perspective have been Paul Sweezy and his partisans of the Monthly Review School, important aspects of this theory might more accurately be seen as extensions of Alvin Hansen's ideas.

In diagnosing the economic malaise of the 1930s, Hansen popularized the term secular stagnation to describe persistent states of sub-full employment that differed from the inescapable cyclical oscillations of capitalism. Hansen's engagement with the structural forces conditioning long-run economic growth nevertheless well antedates his explicit discussion of secular stagnation. Hansen is sometimes superficially presented as little more than an early convert to Keynesian theorizing, to be lauded for his receptiveness to new and challenging ideas, and for his tidy pedagogical presentations of them. While his *Fiscal Policy and Business Cycles* (1941) certainly did introduce a generation of students to the benefits and necessity of public sector intervention, Hansen's own intellectual path was not, as Keynes famously described his own, “a long struggle of escape.” Directly influenced by the institutionalists Richard Ely and John Commons while a graduate student at the University of Wisconsin, Hansen never squarely identified with the Marshallian tradition, and continued to draw upon eclectic influences throughout his career (Merhling 1997, p. 86-92). His incorporation of Keynesian thought was but a late addition to an already well-developed synthetic approach to economic theory.

Hansen's continued exploration of business cycle theory, pursued in his doctoral dissertation and *Business Cycle Theory* (1927), and had initially convinced him that the downturn of the 1930s was but a severe manifestation of the ‘normal’ cycle, wherein a great mass of workers faced, at least, temporary

⁵ Note that Robinson's explicit intent in this passage is to set her theory apart from that of Kalecki, whose theory of investment she discusses in the immediately preceding paragraphs. She claims here that Kalecki relies upon “a precarious source of a motive for accumulation,” as accelerated growth depends upon exogenous technical progress and expected rises in profitability thereby induced (Robinson 1962a, p. 87).

⁶ Robinson is careful to note that in the case of widespread nominal wage indexation the inflation barrier may be operative below full employment.

⁷ One encounters similar comments in second edition of the *Essay on Marxian Economics* (1966) where Robinson notes that while it is “most important” to establish conclusively the relationship between current profits, expected profits, and investment, “the statisticians meet with a formidable difficulty...so that the evidence is hard, perhaps impossible, to disentangle” (p. 94).

technological unemployment.⁸ The cycle was generally understood as the necessary mechanism through which factor prices adjusted to account for technological shocks, as labor was generally rendered temporarily overpriced by technological innovations (Hansen 1932a, p. 27). The greater rigidity entailed by administered prices, and powerful trade unions had rendered this process of rectifying ‘maladjustments’ more difficult, but certainly no less necessary. Colorfully, Hansen noted that “[d]epression, like a cruel and heartless tyrant, clubs down the impossible demands made by the employed agents of production” (Ibid, p. 31).⁹

As emphasized by Barber (1987), the return to recession in 1937 undermined Hansen's previously confident analysis of the Depression as merely a severe correction of factor prices. Hansen's reinterpretation of the downturn, detailed in *Full Recovery or Stagnation?* (1938), argued that output recovery of the mid-30s had been driven by rising, government-supported, consumption. The accompanying rise in investment had been the product of the accelerator, rather than a response to a renewed period of technological innovation. Carried largely by public sector spending, the recovery was predictably fragile. As Kaldor (1939) put it in his positive review of the book for *The Economic Journal*, for Hansen the “recovery has demonstrated the operation of the ‘acceleration principle’...but it has also demonstrated that this ‘acceleration principle is not potent enough either to carry activity to a really satisfactory level or to maintain it there for any length of time” (Kaldor 1939, p. 93). The boom of the 1920s had been driven only in part by a consumption boom and the accelerator. The maturation of the auto industry, and accompanying electrification of assembly-line processes, coupled with a rise in public-financed construction had, crucially, complemented the rise in private consumption. Such a propitious confluence of factors sustaining investment was absent in the mid-1930s. It was in the face of a new era of secular stagnation that substantial and sustained public-sector investment had become a necessity. Hansen's discussion of secular stagnation is, however, somewhat richer than is normally appreciated, and at times parallels Sweezy's subsequent discussion. Secular stagnation was then, for Hansen, the product of a particular historical and institutional conjuncture. Contemporary presentations of Hansen's thesis tend to emphasize the roles of slowing growth of population and technological progress in inducing secular stagnation. Certainly, Hansen did argue that, in a departure from the previous 150 years, persistent population growth could no longer be expected, while expansion into a seemingly limitless frontier had also reached its end. This end to extensive expansion was of deep importance, but considered in isolation, slowing population growth and territorial expansion were insufficient to generate secular stagnation. Rather it was a complex of transformations that gave force to the possibility of secular stagnation.

New epochal industries such as the railroads, or later automobiles and the construction of public roads had previously fueled massive waves of investment. There was, however, “no basis for the assumption that we can take for granted the rapid emergence of new industries as rich.” Consequently, as “[i]t is in connection with the growth, maturity, and decline of great industries that the Principle of Acceleration operates with peculiar force” (Hansen 1941, p. 362). Moreover he suggested that along with this diminished need for extensive expansion, Hansen also expected a reduced rate of intensive expansion. While the transition from rural handicraft economies into capitalist machine production brought with it an enormous rise in the capital intensity of production, similar rates of capital deepening could no longer be expected within the capitalist sphere (Hansen 1938, p. 313-14). Hansen admits directly that “it is definitely clear that the mere fact that there are seemingly unlimited consumer wants cannot of itself ensure full-employment even with the most perfectly functioning price system” (Hansen 1941, p. 336).

⁸ Hansen's later work, *Business Cycle Theory* (1927), is less revealing of Hansen's own theoretical alliances. In part a response to William Foster and Wadell Catchings' under-consumptionist work *Profits* (1927), Hansen offered another systematic and diverse account of existing theories of the cycle. While chiding Foster and Catchings for their insufficient faith in the stabilizing impact of counter-cyclical monetary policy, Hansen nevertheless continued to maintain that cycles would persist as responses to real productivity shocks, and new technological epochs.

⁹ Elsewhere Hansen suggested that the 1930-31 Depression was but “one link in the chain of major depressions. It requires, in so far, no explanation other than the general theory of the business cycle as such. The exceptional severity of the depression, however, is to be explained partly by the drastic deflation of prices, partly by certain structural changes in the capitalistic system...and partly by a special combination of circumstances growing out of the postwar readjustments” (Hansen 1932b, p. 122).

Perhaps no American author was better equipped to weigh the implications of Keynesian theory for neo-Marxist analysis than was Paul Sweezy. Judged by his *Theory of Capitalist Development* (1942), and by his role as a central contributor to, and editor of the *Monthly Review*, Sweezy arguably did more than any other single author to shape the course of neo-Marxist political economy in the twentieth-century. Further, Sweezy was well-versed in the literature of continental Marxism, to a degree unmatched by many of his contemporaries, and enjoyed direct experience as a PhD student and young assistant professor in the administration of the New Deal (Howard and King, 2004). Though his tone could vary markedly, the general tenor of Sweezy's commentary on Keynesian economics throughout his career deviated little. Keynes seemingly appeared to Sweezy as something of a world-historical figure. His ideas represented the reawakening of bourgeois political economy from a near-century of vulgarity and intellectual stagnation, while retaining its inherent limitations. Keynes and his followers were, as an historical phenomenon, the obvious "direct outcome of the latest phase of capitalist development" (Sweezy 1942, p. 52). In Sweezy's telling, non-Marxist analyses of the business cycle, such as those of Hansen, Schumpeter, or Robertson, had long treated its recurrent manifestations as both endogenous, and inexorable. In this their theories were broadly compatible with Marx's own. What had limited orthodox theory was its unwillingness to see "the business cycle [as] a threat to the permanence of the capitalist system itself" (Ibid, p. 154-5). Thus it was the willingness of Keynesian theory to see long-run stagnation as a normal outcome of the process of capitalist development that marked it as a clear advance. As a body of economic analysis, Sweezy's objections to Keynesian theory were quite limited. As he notes, "[g]enerally speaking their logical consistency cannot be challenged, either on their own ground, or on the basis of the Marxian analysis of the reproduction process. The critique of Keynesian theories of liberal capitalist reform starts, therefore, not from their economic logic but rather from their faulty assumption about the relationship...between economics and political action" (Ibid, p. 348-9). In this respect, Sweezy's position seemingly remained stable, as is suggested by this initial review of Hansen's *Full Recovery or Stagnation* (1938). Noting Hansen's book "must be regarded as one of the most important to come from the pen of an American economist in recent years," Sweezy found little fault with the presentation of secular stagnation therein calling it "brilliant and profound." Having outlined Hansen's basic claims, Sweezy noted that "[t]he implications of these facts for public policy are fundamental. It is extremely unlikely that capital expenditures by business men in search of profits will ever again approach a figure adequate to support a satisfactory national income" (Sweezy 1938, p. 545). Sweezy's skepticism was entirely directed towards the general lack of any form of class-based analysis in Hansen's work. Sweezy faulted only Hansen's belief that "[t]he economic system...can be analyzed and its ills prescribed for in complete abstractions from the kind of society to which it gives rise" (Ibid, p. 544-5).

Sweezy's subsequent discussion in *The Theory of Capitalist Development* (1942) of the forces that had previously forestalled stagnation plainly shares much common ground with Hansen's account, though Hansen is not directly cited in this context.¹⁰ Sweezy first details how the process of industrialization and the establishment of new industries absorbed enormous volumes of savings without immediately yielding chronic over-capacity. With industrialization having largely run its course it had become "difficult even to imagine a series of new industries that would have the same relative importance comparable to...[those] of the eighteenth and nineteenth centuries" (Ibid, p. 219). Further extensive expansion across the globe was fraught, as Sweezy appraised heightened popular resistance to capitalism's expansion into pre-capitalist spheres, and thought that existing monopolistic firms would fear any renewal of competition fostered by the newly industrialized. With the frontier of expansion closing, sustained accumulation faced further headwinds patterned, seemingly, after Hansen's model. Rapid population growth in the 18th and 19th centuries had, in Sweezy's telling, removed upward pressure on wages rates allowing total consumption to grow, and accumulation to proceed at 'high rates' without any accompanying downward pressure on the rate of profit. In light of the generally acknowledged slowing of population growth in the highly industrialized world, this force sustaining accumulation had been rendered impotent. Taken together, these were the tendencies that had "pretty well dominated the expansion of capitalism throughout the greater part of its history" (Ibid, p. 234). Thus the failure of new industries to emerge at a sufficiently rapid rate and the slowing of population growth, suggested a drift towards chronic depression in the absence of new and considerable countervailing forces. In sum, Keynesians had acknowledged that capitalism was subject to recurrent crises, and that capitalism's internal dynamics were capable of producing long-run stagnation.

¹⁰ Marglin himself noted this parallel and suggested that "both the liberal and radical arguments on the causes of stagnation derive from a Keynesian world view rather than a Marxian one" (Marglin 1984, p. 101).

Keynesians were guilty of a certain political naiveté, but not of a misapprehension of the process of accumulation and growth.

Sweezy's true ire was, rightly so, reserved for the 'bastard Keynesians' that side-stepped "the reconsideration of the whole theory of investment," and the broader social philosophy suggested by Keynes in Chapter 24 of the *General Theory*, and instead transformed Keynesian analysis into a much more modest set of business cycle remedies (Magdoff and Sweezy, 1983). To his way of thinking, Keynes had articulated a theoretical framework in which anemic private investment would yield relative stagnation and unemployment, but had not conclusively shown why private investment would tend towards chronic long-run insufficiency. A thorough-going explanation of why private investment would be a perpetual laggard was not, however, provided. Other than the attempts by Hansen (1938), Sweezy charged that the followers of Keynes had likewise avoided this question, allowing it to recede into the background amidst the revived growth rates of the post-War world.

The relative prosperity and renewed rates accumulation in the post-War years did little to modify the core argument. Written together with Paul Baran, *Monopoly Capital* (1966) more carefully traced the evolution of the monopoly stage of US capitalism, detailing the successive trends that had forestalled capitalism's innate tendency towards stagnation. The surprise of robust post-War growth lay in the new outlets for investment that had materialized. Complementing high and sustained levels of military spending, "a second great wave of automobilization and suburbanization fueled by a tremendous growth of mortgage and consumer debt" had allowed for the absorption of surplus (Baran & Sweezy, 1966, p. 244). Baran and Sweezy were, nevertheless, willing to double-down in claiming that these countervailing forces had again run their course, and that an era of stagnation was once again nigh. To say the least, the continued decline in US unemployment rates to below four percent by the close of the decade did not feature in their forecasts.

The contributions of Josef Steindl were, of course, also of central importance to the evolution of the stagnationist tradition. Though educated within the Austrian school, the abiding theoretical allegiance of Steindl's mature work was to Kalecki.¹¹ Like Kalecki, Steindl saw the widespread and seemingly permanent emergence of oligopolistic firms as one of the decisive transformations of the post-War era. The long-term reduction in competitive pressures naturally brought with it comparative decline in investment. In treating the investment decision, however, Steindl emphasized the role of capacity utilization, and treated the expected rate of profit as a variable of secondary importance. On this basis, investment is seen as a positive function of the difference between the actual and desired degree of capacity utilization, internal accumulation on the part of the firm, and a negative function of the firm's current degree of leverage (Steindl 1952, p. 211-12). Absent the intervention of activist fiscal and redistributive policies, rates of investment would inevitably decline, and growth would stagnate. For Steindl the relative prosperity of advanced capitalism's post-War 'Golden Age' was the product of policy choices that recognized a substantial role for the state in ensuring full-employment and growth.

Crucially, Steindl saw the eclipse of the Golden Age that began in the late 1960s as, first and foremost, the product of policy choices. Following Kalecki's predictions, full-employment policies had "led to a growing resentment of workers claims...[and] to complaints about work discipline" on the part of business. The consequent opposition of business leaders to a continuation of full employment policies had produced instead a "policy of stagnation" (Steindl 1979, p. 8-9). For Steindl, no fundamental change in the "objective circumstances" governing growth and employment had occurred. The slowing of growth in the 1970s was a counter-reaction, effected through a reversal of full employment policies, against the political power of workers and trade unions. Thus Steindl concluded that only two forces could bring about the restoration of earlier rates of growth and employment. Either a long-run distributional shift leading to an increase in the wage share of national income, or full-fledged return to full employment policies of the part of governments would be necessary (Ibid, p. 13). In their absence, mature capitalism's underlying tendency towards stagnation was sure to reappear.¹²

5 THE RISE OF THE PROFIT SQUEEZE NARRATIVE

¹¹ Steindl himself noted that he was "the product of England and Kalecki" (quoted in Shaprio 2012, p. 169)

¹² Though he had earlier disavowed the Hansen-Sweezy contention about the decline of epochal innovations, he came to admit that "I think now that this was foolish and I subscribe to Kalecki's view that innovations are capable of generating a trend" (Steindl 1979, p. 7).

While it was no gilded utopia, the post-War accumulation regime seemed to offer powerful testimony to the viability of an at least modest form of social democracy. Against this backdrop, the new heralds of crisis saw within the post-War compromise the seeds of its own demise. The relative successes of labor, though they might have fueled a temporary consumption boom, could not be sustained in the increasingly competitive, globalized world capital had made for itself. Prominent in shaping this narrative on the Left were Andrew Glyn and Bob Sutcliffe. To the readers of the *New Left Review* (1971), and subsequently to a broader audience in *British Capitalism, Workers and the Profit Squeeze* (1972), Glyn and Sutcliffe announced that the British economy stood on the doorstep of crisis. Undoubtedly this was a daring proclamation amidst modest unemployment and the UK's surging growth of the early 1970s. Concealed behind this façade, they held, was a marked fall in the share of profits in national income over the latter half of the 1960s. This development announced not so much the strength of labor, as there was no sudden uptick in the rate of wage growth, as the evident inability of firms to pass these wage increases along through the mark-up. Relying more on deductive reasoning than empirical evidence, Glyn and Sutcliffe charged that this development could only be the result of heightened international competition.

The ebbing of the profit share, and the accompanying fall in the rate of profit implied, first and foremost, a slower pace of accumulation. In their account, current profitability altered investment decisions “by influencing expectations about the profitability of [future] investment or through their role as the major normal source for the finance of investment (Glyn and Sutcliffe 1971, p. 14). Thus while rise in the wage share of national income was *the* “decisive advance” made by the working class in the 20th century, for capitalism “the continuation of [these] trends for a few more years would be catastrophic” (Ibid, p. 27). A Robinsonian ‘Golden Age’ of full-employment growth was an impossibility as “[t]here is no economic solution to the crisis in which the interests of capital and labour can be satisfied at once” (Glyn and Sutcliffe 1972, p. 200). British workers were thus faced with a choice to accede to the demands of capital accumulation lest it grind to a halt, or to pursue politically a socialist transformation. Their preferred strategy was clear as they wrote that “it is time for workers not to moderate their wage demands but to destroy the system which exploits them” (Ibid, p. 201). No other strategy could claim a foundation in economic logic. The empirical support for this argument met with some immediate, if poorly formed, contestation (see Yaffe 1973), but in the war of ideas, Glyn and Sutcliffe could scarcely have hoped for stronger apparent confirmation of their thesis than the crisis into which the British economy descended in the mid-1970s.

Glyn and Sutcliffe’s early contributions were decidedly anglocentric¹³, but their contentions were soon to be generalized. In a lead article of the *Monthly Review*, Radford Boddy and James Crotty (1974) both restated and generalized the profit squeeze thesis articulated by Glyn and Sutcliffe. In their account, Keynesian theory had renewed faith in the possibility of full-employment growth under capitalism, a possibility that Marx had squarely dismissed. As the achievement of such growth had become Keynesians’ central aim, they had necessarily “glossed over the importance of the full-employment profit squeeze” (Ibid, p. 3). Likewise they rightly note that both Kalecki and Steindl had generally dismissed the possibility of a profit squeeze, suggesting instead that the costs entailed by rising wages would be passed through. Heightened international competition, manifest in the erosion of US trade surpluses, rendered capitalists’ inflationary accommodation of wage gains problematic. Mustering data from the US to support their case, the apparent cyclicity of the wage share, along with the seeming rise in unit labor costs in the tail-end of business cycle expansions lent considerable doubt to the Kalecki-Steindl proposition. Rising wages were not the only cause of the spike in unit labor costs during expansions, as it was also suggested that productivity growth would slow due in part to “an increasingly obstreperous labor force” (Ibid, p. 9). These dual mechanisms of the profit squeeze would play a central role in later models.

6 RATIONAL CHOICE MARXISM AND THE VIABILITY OF SOCIAL DEMOCRACY

¹³ Glyn and his co-authors Philip Armstrong and John Harrison (1984) were to later extend their argument to explain the declining growth prospects of advanced capitalist countries generally. The central argument is largely a repetition of Glyn and Sutcliffe’s earlier narrative of the late-1960s and 1970s profit squeeze. Notably they conclude that to restore post-War rates of growth “on a capitalist basis [requires] the appropriate balance between real wages and productivity...The restoration of the conditions for profitable production precludes the substantial increases in real wages to which a left government will be committed in the eyes of its supporters” (Ibid, p. 430).

By the close of the 1970s, profound skepticism with respect to the economic viability of social democracy was also manifest in the emergent tradition of Analytical Marxism. As characterized by Eric Olin Wright (1994), the tradition “grew out of a belief that Marxism...was frequently burdened with a range of methodological and metatheoretical commitments that seriously limited its explanatory potential” (p. 179). For Wright, while the group never achieved internal political or ideological consensus, it was nevertheless united by a number of definite methodological commitments, among them the use of “conventional scientific norms in the elaboration of theory,” the application of formal mathematical and causal modeling, and the “importance accorded to the intentional action of individuals.”

In a series sweeping accounts of the evolution of social democratic movements, work that eventually coalesced into *Capitalism and Social Democracy* (1985), Adam Przeworski did much to shape the group's perspective. In his account, early social democratic parties had operated with the somewhat naive presumption that the progressive extension of the franchise would inevitably imply a socialist transformation, with the proletariat assuming its dictatorship through electoral means. Gradually though, the realities of participation in bourgeois democracy became apparent. The working class did not constitute a singular ‘reactionary mass’ with identical economic interests, nor did it constitute an electoral majority. The ability of social democratic parties to win power and to govern therefore depended on strategic compromises among the class interests of its constituents, and with other political parties.¹⁴ Though in their language social democratic parties claimed that socialist revolution and the abolition of social classes remained the ultimate goal, the proximate economic transformation pursued by these early movements was nationalization of the means of production. Their practical effects were, however, triflingly small, as “with the exception of the French armament industry in 1936, not a single company was nationalized in Western Europe by a social democratic government during the entire inter-war period” (Ibid, p. 48). Thus, whatever its electoral successes, social democracy had failed to identify itself with any coherent body of economic theory prior to the ‘Keynesian Revolution’ of the 1930s. Social democrats quickly seized upon Keynesian theory as it offered “a goal and hence the justification for their governmental role and simultaneously transformed the ideological significance of distributive policies that favored the working class” (Przeworski 1980, p. 51). That is, Keynesian theory suggested to social democrats not only that they could mitigate the cycle through counter-cyclical policies, but also, crucially, that higher wages might drive growth in capitalist economies rather than impeding it. Armed with this theoretical apparatus, social democrats could drift from the project of nationalization without jettisoning their fundamental class alliance. The state could remain an active governor of the economy, soothing the vicissitudes of capitalism. This theoretical alliance implied, for Przeworski, that social democracy lost its previous character as a reform movement based upon cumulative progress towards socialism, preferring instead to make the best of it under capitalism.¹⁵

Though the point finds less emphasis in this early article, central for our purposes is Przeworski's closing suggestion that social democrats also came to discover the lingering incompatibility of their redistributive goals with sustained accumulation and productivity growth. We are told that “[a]s long as the process of accumulation remains private, the entire society is dependent upon maintaining private profits” and thus that “the limit of any policy is that investment and thus profits must be protected in the long run” (Przeworski 1980, p. 55-6). Though a formal model is absent from this presentation, Przeworski's judgment on the irreconcilable tension within social democracy is abundantly clear. Such a model was supplied shortly thereafter within one of Przeworski's many subsequent collaborations with his former PhD student Michael Wallerstein. In their relatively simple two-class model of accumulation (1982) workers do not save. Adopting a simplified Kaldor-Pasinetti model, capital accumulation depends upon capitalists' savings out of profits, and thus the rate of growth is determined solely by the rate of profit and capitalists' saving rate, assuming that the productivity of capital is constant. Writing at the outset of the 1980s, the return to a model of accumulation in which full employment and capacity utilization are presumed represented a curious choice, and one that implied predictable results with respect to the impact of redistribution on accumulation. Within this framework, however, Przeworski and Wallerstein argued that continued robust

¹⁴ In Przeworski's words, “[t]he combination of minority status with majority rule constitutes the historical condition under which socialists have to act...[S]ocialists must choose between a party homogeneous in its class appeal, but sentenced to perpetual electoral defeats, and a party that struggles for electoral success as the cost of diluting its class character” (Przeworski 1980, p. 39).

¹⁵ Such a characterization of social democracy also finds resonance with more recent appraisals of political scientists. (See for instance, Berman 2006 and Blyth 2002).

rates of accumulation depended on a tenuous class compromise that was unlikely to be sustained in the presence of any meaningful measure of uncertainty.

The theoretical motivation of this approach appears fairly clear. Simply put, Przeworski and Wallerstein viewed traditional Keynesian policies as increasingly discredited. For them, the Left of the mid 1980s seemingly lacked the maturity and introspection to recognize that the old stalwart policies of income redistribution and social spending had become ineffective. As political strategy it “represent[ed] a reaction of clinging to old ideas and policies that the Right claim[ed], with some justification, [had] been tried and found wanting” (Przeworski 1985, p. 206).¹⁶ Keynesian economics was, unfortunately, mistaken in dismissing savings as a meaningful constraint on growth. The difficulty, in their minds was that Keynesian economics was merely the economics of the short-run. Stepping beyond the short-period, “when the economy is close to full employment the measures meant to increase aggregate demand and therefore decrease aggregate savings have the effect of limiting the rate of growth of potential output.” Though latter work was peppered with validations of redistributive taxes, Przeworski and Wallerstein (1998) continued to operate under the same theoretical assumptions of full-employment and savings-constrained investment. With the problem of effective demand discarded by assumption, long-run growth was inescapably profit-led. Thus for Przeworski and Wallerstein recognizing the flaws of the social democratic project was directly tied to an examination and rejection of the Keynesian-Kaleckian theoretical revolution.¹⁷

7 THE LEFT IN RETREAT

Such a wholesale rejection of the principle of effective demand in the long-run was not so quickly forthcoming among Left economists. Nevertheless, as the decade of 1980s was ushered in by the electoral triumphs of conservative forces, assaults on organized labor, and extraordinarily tight monetary policy throughout much of the advanced capitalist world, the Left found itself on the defensive. Within this domain, the 1980s witnessed the development of two essential literatures that would form the basis of the B-M synthesis. One of these developments centered upon formal extensions of the stagnationist perspective. Lead by Bob Rowthorn’s model (1981), this literature provided a reconciliation between Kalecki and Steindl’s variants of the investment function, rendering investment a function of both of the current rate of profit, and the rate of capacity utilization.¹⁸ Rowthorn’s stated justification for including the current rate of profit in the investment function is three-fold: current profits serve as a barometer of future profits, they serve as an immediate source of internal financing for the firm, and they can improve the prospects for external financing. The crucial point for our purposes is that within these models only a wage-led growth regime is possible. Following Rowthorn, the mid-1980s saw the introduction of a number of explicitly stagnationist models that essentially retained the basic investment function proposed by Rowthorn, and extended it to consider the effects of fiscal and monetary policy, as well as foreign trade. Minor variations notwithstanding, these models were alike at the theoretical level in that they assumed that a redistribution towards wages would have a positive impact on the rate of growth.¹⁹ While these models are sometimes treated as a special variant of *the* Kaleckian model, they appear far closer to the spirit of Kalecki and Steindl’s original contributions.

The 1980s also saw the maturation of the Social Structure of Accumulation (SSA) paradigm, most prominently developed by Samuel Bowles, David Gordon, and Thomas Weiskopf.²⁰ Through repeated collaborations, these authors presented what they termed a “Marxian ‘supply-side’ interpretation” of 20th century capitalism’s long-waves of accumulation and eventual crisis wherein the corporate rate of profit was the “fundamental underlying determinant of accumulation and growth” (1987, p.43-44). Contributors to the SSA paradigm explicitly viewed their approach as an alternative to the stagnationist tradition

¹⁶ Among others, this chapter was jointly written with Wallerstein.

¹⁷ See Mott (1989) for an early anticipation of the critique outlined here. Mayer (1994, p. 193) makes much the same point noting that “[a]s the model [of Przeworski and Wallerstein] now stands, the capitalist class would happily cut working-class consumption to zero, taking all national income as profit.”

¹⁸ It is often argued that Del Monte (1975) anticipated many of Rowthorn and Dutt’s results, though the latter seemingly proved more influential.

¹⁹ See for instance, Dutt (1984), Taylor (1985), and Amadeo (1986).

²⁰ The term itself, and the related framework of analysis, was first clearly articulated by Gordon (1978).

discussed above, and were eager to point out what they viewed as its empirical shortcomings.²¹ In their view, the crisis of the 1930s was, in a broad sense, the result of “the capitalist class being too strong and the demand for goods and services being insufficient as a result.” Such conditions fortuitously allowed for the interests of capital and labor to align, and allowed for the success of “Keynesian and social democratic policies which... promised to redistribute income to labor, farmers, and other non-capitalist groups and [to] thereby stimulate demand” (Ibid, p. 55). Such an alliance could not, however, prove to be a durable model of growth. Taking the US economy as their central focus, the erosion of corporate profitability that began in the late 1960s stemmed from three basic institutional and political shifts: A heightened degree of international competition, a growing recalcitrance of labor to the demands of management fostered by low rates of unemployment, and the mounting cost burdens of environmental and safety regulations (1983, p. 79-97). In short, the crisis of the 1970s and early 80s was a different type of crisis entirely. It was “the type of supply-side crisis which results initially when the capitalist class is ‘too weak’” (1987, p. 55). As a consequence of the typology, social democratic responses that relied solely on egalitarian income redistribution were bound to meet with poor results. The only viable progressive strategy that remained was the supersession of capitalism itself.

In its early incarnations, particularly in *Beyond the Wasteland*, these arguments were presented as an historical narrative rather than as formal mathematical models of accumulation and growth. Subsequently, the research agenda evolved to include econometric estimations of the determinants of corporate profitability (Bowles, Gordon and Weisskopf 1986). To their authors, these estimates offered meaningful confirmation of their historical narrative. Further, in collaboration with Robert Boyer, Bowles (1988) offered a model of employment wherein investment was eventually constrained by a high employment profit-squeeze. This first model, which made explicit use of the dichotomy between wage- and profit- led *employment regimes*, made only indirect policy suggestion. In a subsequently published elaboration of the model (Bowles and Boyer 1990), its larger intent was made far clearer. There they noted that one important result of their model was that it “yield[ed] classical results – lower wages going along with higher levels of activity – even under rather extreme ‘Keynesian’ assumptions concerning savings, invest, and exports, and the effects of government borrowing. Indeed, high-levels of employment preclude wage-led employment regimes... suggesting the inherently contradictory nature of the social democratic full-employment program” (Ibid, p. 210). Moreover they noted that the model ought to be seen as an essential complement to the B-M model, a version of which appeared in the same volume.

In objecting to the Kalecki-Steindl investment function of the stagnationists, Bhaduri and Marglin were not then simply offering a technical amendment that allowed capacity utilization and profitability to exercise independent effects, but also formalizing nearly two decades of Left critiques of the long-run feasibility of Keynesian social democracy. At issue was the ‘prime-mover’ in the investment decision. If the principle barrier to investment is the existence of sufficient effective demand, changes in capacity utilization will, for a given rate of profit, dominate the effects of the fall in the profit share. By contrast, if “capitalists are confident of their ability to sell additional output” then the expected profitability of investment (profit share) is the dominant variable” (Bhaduri and Marglin 1990, p. 168). The authors did not hesitate to apply their model to post-War US experience, and to offer a narrative account of the transition from wage-led to profit-led growth in the US. To paraphrase, they argued that in the aftermath of the Second World War, firms in most advanced capitalist countries were able to realize high profit margins and, necessarily, high profit shares. Fearing a return of depression-like conditions, firms’ investment was relatively insensitive to the profit share, and accelerator effects dominated. Given such conditions, “the strategy of wage-led growth may have been the best – indeed, the only – game in town” (Ibid, p. 175). As firms grew more confident through the 1950s and 60s that prosperity would not be transient, the investment function became increasingly sensitive to changes in the profit share, which for the time-being remained high. The marked slowdown in US growth during the 1970s was thereby attributed to the fall in the profit share, itself produced by a host of factors including the decline in the rate of productivity growth, sustained wage pressures, and the oil price shocks. Writing at the close of the 1980s, however, the authors were hesitant to argue that the US had made a permanent transition to a profit-led growth regime. If businesses

²¹ This line of argument is perhaps most forcefully and concisely stated in Weisskopf, Bowles and Gordon (1985). There the authors contend that “demand-boosting macroeconomic strategies can be successfully pursued only when conditions are *unusually* favorable for capital on the supply-side; i.e., when there is a large pool of labor to draw upon...and when raw materials are readily available. But even when such conditions do obtain, it is virtually inevitable that a sustained period of demand expansion will undermine them” (p. 280, emphasis added).

had again lost confidence in sustained economic growth, as Marglin and Bhaduri argue was the case, the growth regime of the US might have again reverted to the wage-led type (p.180-3). Thus, while Marglin and Bhaduri defined the categories around which much future debate in post-Keynesian growth theory would center, they should not be seen as the originators of the view that the US economy had made a definitive transition to a profit-led growth regime. The model was, nevertheless, the outcome of a generation Left social scientists that had become deeply skeptical of the possibility of egalitarian redistribution under capitalism, and of the political ambitions of Keynesian and social democratic parties.

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