

# **Hegemony: Explorations into Consensus, Coercion and Culture**

**A workshop at the University of Wollongong  
14 &15 Feb 2005**

## **Panel 3 Ideologies/Discourse**

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# **Hegemony: Explorations into Consensus, Coercion and Culture**

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## **The Role of 'Economic Education' in Achieving Capitalist Hegemony**

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## **The Role of ‘Economic Education’ in Achieving Capitalist Hegemony**

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Antonio Gramsci used the term ‘hegemony’ to describe the phenomenon by which the majority of people accept the values and political axioms that ensure their own subordination to the ruling elite. Elites reinforce this hegemony through social conditioning, aided by leading social institutions, as well as by rejecting and marginalising those who propose radical change. They promote the virtues of the existing system and denigrate alternatives as unworkable, disastrous, undesirable.

Nowhere has more effort been put into creating a capitalist free market hegemony than in the US, where advocates of free markets have sought to identify every major institution with free enterprise. The free market “remains the sacred cow of American politics and has become identified with America’s claim to be a model for a universal civilization.”<sup>1</sup> However this hegemony is not stable and requires constant reinforcement. The proliferation of corporate propaganda during the 20<sup>th</sup> Century shows that ideology has played a vital role in supporting and legitimising capitalism.

The capitalist system has undergone several periods during which its legitimacy has been questioned. Business people have responded each time with propaganda and public relations efforts to regain their legitimacy. This paper focuses on two of those periods: following the second world war when government controls, economic planning, and the public provision of welfare protection had been shown to be effective; and during the late 1960s and early 1970s when the counter-culture movement brought with it a proliferation of public interest groups, including environmental and consumer groups, that challenged the authority of business and sought government controls over business activities.

### **Countering Government Regulation and the Unions**

In the immediate post war period, key business organisations in the US were concerned about government intervention and controls on the one hand, and union activity on the other. Proposals for further government intervention included price controls, a rising minimum wage, expanded unemployment insurance and tax reforms. Unions were active and in some cases demanding not just improved pay and conditions, income security and full employment through government spending, but also a say in corporate decisions in areas such as pricing and investment.<sup>2</sup>

Polls generally confirmed business fears that the public did not believe in the free enterprise system as wholeheartedly as business would wish. Although most people were in favour of private ownership and thought well of large corporations, a majority also thought that most businessmen did not have the good of the nation in mind when they made their decisions and therefore government oversight was necessary.<sup>3</sup> Many believed that businesses made huge profits and, business leaders felt, few understood the relationship between profits and investment.<sup>4</sup>

Business sought to deal with these threats by selling free enterprise on the basis that “if you control public opinion you have the government in your hand and labor behind the eight ball.”<sup>5</sup> Public relations consultants, eager for business, promoted the need for their services. Large amounts of money were spent on lobbying, institutional advertising, philanthropy, research sponsorship and

other public relations activities. But the core of their efforts was ‘economic education’, that is, the selling of free enterprise.

In her history of this period, Elizabeth Fones-Wolf, explains how business groups countered the perceived trend towards socialism:

The business community... set out to build an agreement around an alternative agenda. In doing so, it sought not only to recast the political economy of post-war America but also to reshape the ideas, images, and attitudes through which Americans understood their world. Employers wanted support for the belief that economic decisions should be made in corporate boardrooms, not in legislative chambers.<sup>6</sup>

Corporations, and the PR people hired by them, identified business interests with national interest and “the traditional American free-enterprise system with social harmony, freedom, democracy, the family, the church, and patriotism” whilst they identified “all government regulation of the affairs of business, and all liberals who supported such ‘interference’, with communism and subversion.”<sup>7</sup>

Henry Link, head of the polling company Psychological Corporation, argued at the time that what was needed to restore the legitimacy of business and prevent the interference of government was “a transfer in emphasis from free enterprise to the freedom of all individuals under free enterprise; from capitalism to the much broader concept: Americanism.”<sup>8</sup>

What followed was “the most intensive ‘sales’ campaign in the history of the industry” according to Daniel Bell, then editor of *Fortune* magazine. What was being sold was free market dogma, and the full weight of business resources were poured into it: “The apparatus itself is prodigious: 1,600 business periodicals, 577 commercial and financial digests, 2,500 advertising agencies, 500 public relations counsellors, 4,000 corporate public relations departments and more than 6,500 ‘house organs’ with a combined circulation of more than 70 million.”<sup>9</sup>

### **The Ad Council Campaign**

In 1947 the Ad Council launched a nationwide public ‘education’ campaign to sell the free enterprise system to the American people. It received “unprecedented amounts of money” from business toward the \$100 million economic education campaign “to ‘sell’ the American economic system” to the public, including large donations from General Foods, General Electric, General Motors, IBM, Johnson and Johnson, Procter and Gamble, Goodrich, and Republic Steel.<sup>10</sup>

In this campaign free market was described as “the most democratic institution ever devised by man—whereby all the people decide every day what goods and services are to be produced and in what quantities, making their decisions by establishing the prices they are willing to pay”. Competition was depicted as constantly forcing “the seller to keep improving the goods and services he offers”.<sup>11</sup>

Ironically the individualist message of competition and self interest was sold through a campaign that sought to promote industrial harmony and the idea that we should all cooperate and work together to protect the system and achieve the prosperity it promised. The campaign argued that increased production could be achieved through mechanisation, better efficiency and the cooperation of workers and management.<sup>12</sup>

In the first two years of the Ad Council campaign, 600 pages of ads were published at no cost, newspapers printed 13 million of lines of advertising for free, 8000 billboards were erected, and radio messages were broadcast into “almost every home in America”. The advertisements offered a free pamphlet “The Miracle of America” and 1.5 million copies of this were distributed by 1950. Many more had been reprinted in magazines and company publications.<sup>13</sup> By the end of 1949, the Advertising Council’s campaign had blanketed the country with over 500 advertisements in national magazines, newspaper supplements and business publications, 8,000 newspaper advertisements, 6,000 outdoor posters and messages carried by almost all the network radio programs resulting in more than 2 billion “listener impressions”.<sup>14</sup>

The campaign was based on the assumption that if Americans were taught to think correctly about the free enterprise system then they would approve of business activities and not call for government regulation of them. Organisations such as the Opinion Research Corporation (ORC) did studies to prove that Americans were ignorant of economics and the fundamentals of the American economic system and needed economic ‘education’. However these studies were essentially surveys of how strongly business values were held in the community as can be seen in the sample of questions below. The ‘correct’ answers are shown by a tick:<sup>15</sup>

On the whole, workers make more money today than they did thirty years ago.

- But they are worse off because prices have gone up
- They are a little better off, but not much
- They are about 25% better off
- They are about 75% better off

Money invested in new machinery and equipment has increased output. The workers have got some of the increase but the larger share has gone to the owners.

- I agree
- I disagree

The wealth of this country is becoming more and more concentrated in the hands of the wealthiest 10% of the families

- True
- False

Consumers don’t have much influence on prices. Companies set the price and the customer has to pay it.

- I agree
- I disagree

Clearly such questions merely tested the degree to which high school students’ opinions coincided with those of business people and conservative ideologues. Many students erroneously thought that owners got too much profit and gained most from new machinery. Worst of all, from a business point of view, over half of the students agreed with the Marxist statement: “The fairest economic system is one that ‘takes from each according to his ability’ and gives to each ‘according to his needs’.” This was even though most teachers disagreed with the statement. The failure of students “to see through this Marxist doctrine” was taken to be evidence of “how little high school Seniors comprehend the fundamentals of our system.”<sup>16</sup>

It was economic ignorance, ORC claimed, that led to an anti-business bias.<sup>17</sup> Thus, corrective education and propaganda was necessary and was aimed at schools, universities, company employees and also the public in general. The ORC also argued that corrective education and propaganda was necessary to undermine the faith of the community in government and regulation:

The stress our high schools place on American history and government leads teenagers to believe that a government directed economy, since it operates for the benefit of all, will best assure social and economic justice....

Young people's support for enlarging the role of government in our lives is not likely to change without economics instruction.<sup>18</sup>

The ORC argued that “ignorance and lack of understanding of how the business system works go hand in hand with a willingness to vote for measures that undermine the system.” Clearly it was best to correct such ignorance at school. School children, it found, were more likely to view regulation of business and government control of prices favourably but this could be corrected with simple ‘education’.<sup>19</sup>

### **School Economics Education**

Businesses became very active in promoting free enterprise values in schools. The use of school education to educate children to appreciate the free enterprise system was carefully thought out and a conscious strategy to win people over at an early and impressionable age.

A number of individual corporations developed educational materials to this end. For example, Coca-Cola prepared and distributed eight units of curriculum material on “Our America” to some 30 million primary school children. International Harvester and the American Petroleum Institute sponsored educational materials on the development of the US economy produced by an advertising agency and distributed them for free.<sup>20</sup> General Mills decided that even primary school students were not too young to be taught free market economics and it sponsored materials such as silk-screen panels telling the story of marketing bread; film strips; and a comic book on “Freedom of Choice”.<sup>21</sup>

Other companies pumping materials into schools—texts, filmstrips, teaching kits, movies—included U.S. Steel, General Electric, General Motors, American Cyanamid, Standard Oil and many others. In fact one in five corporations did so. In 1954 corporations were supplying about \$50 million worth of free materials to schools compared with an annual expenditure on regular textbooks in schools of \$100 million.<sup>22</sup>

Individual corporations were not the only ones providing free market ‘educational’ materials for schools. There were also:<sup>23</sup>

1. Business, industry and trade associations of industry who sought to show the role of industry and its products in the economic system. Examples included the American Bankers Association, the American Iron & Steel Institute, the US Chamber of Commerce, the New York Stock Exchange, National Association of Manufacturers (NAM), the American Petroleum Institute and the Automobile Manufacturers which supplied materials to elementary and/or secondary schools.
2. Organisations advancing a particular economic philosophy such as The American Economic Foundation, Americans for the Competitive Enterprise System, Freedoms Foundation and the National Education Program.
3. Organisations seeking to sell educational materials for a profit such as the Industrial Relations Center.

4. Organisations set up for the purpose of changing people's understanding of economics such as the Joint Council on Economic Education and the Industrial Information Institute.
5. Think tanks and service organisations which concentrate on secondary schools and colleges such as the American Enterprise Institute, the Center for Information on American and the National Foundation for Consumer Credit.

These organisations produced teaching aids and also teaching units consisting of printed materials, films, record sets, text books, activity books, teachers guides, wall charts, and tests. They also provided speakers, tours, awards programs, and career conferences and programs for secondary school students and symposia, seminars, workshops and panel discussions for college students.<sup>24</sup>

A 1951 study found that 89% of teachers surveyed used industry-sponsored materials in their classes. Another, a few years later, found that 77% of all films shown in schools surveyed were donated sponsored films.<sup>25</sup> The ORC found that same year that three quarter of social studies teachers reported receiving teaching aids from private corporations on the way business systems operate. Some described the material as “one-sided, biased, smacks of propaganda, never admits any faults in the system.” However, most teachers tended to have high regard for the capitalist, free enterprise system and social studies teachers were particularly open to receiving and using the corporate material.<sup>26</sup>

By the end of the 1950s the business point of view had become the accepted truth in many schools and students were, in the words of economics professor Daniel Fusfeld, “captives of the ideology of the right, ... indoctrinated” with the idea that an economy which was “free, competitive and individualistic” had to be maintained.<sup>27</sup>

### **Employee Economics Education**

Whilst many corporations attempted to influence school education, many more directed ‘educational’ efforts at their employees, who were captive audiences. Ninety five percent of large companies surveyed in 1947 approved of the idea of employee education<sup>28</sup> and in the following years many large corporations including Johnson & Johnson, IBM, Westinghouse, US Steel and DuPont developed educational programs for workers or supervisors.<sup>29</sup> Nine million employees were put through ‘evangelical’ anti-union, anti-government courses of ‘economic education’ within a three year period.<sup>30</sup>

As with the general public it was assumed that undesirable worker attitudes towards business were related to their poor grasp of economic ‘principles’, in particular the following six economic principles:

1. Government control over production destroys free enterprise;
2. A man's real job security depends on how good his company is in meeting competition;
3. Highest pay should go to those who produce most;
4. The consumer, rather than the company, sets the price;
5. Labor saving machinery makes jobs;
6. Stockholder and employee interests are allied.<sup>31</sup>

It was concluded from surveys that those who are ignorant of these economic principles were more likely to be dissatisfied at work and more likely to embrace “collectivist” proposals. They were also more likely to favour price controls, limits on profits, limits on salaries, government ownership and stronger unions than those who were ‘well-informed’.<sup>32</sup> Company-based economic courses were therefore run to better inform workers and foremen so that they would have better attitudes towards business as well as more interest in company problems and working to solve them, “increased productivity; improved worker morale, and better citizenship”.<sup>33</sup> The subjects most frequently covered in employee economic education courses were justifications for profits; the ideology of competition and how it ensures “the consumer is boss”; and the ‘proper’ and therefore limited role of government.<sup>34</sup>

A 1954 American Management Association (AMA) report found that employee education was carried out in almost all American industrial companies. It noted that some companies used the terms “propaganda” and “economic education” interchangeably and many were open about their wanting “to influence our people to think ‘right’” and wanting “to change their thinking”. Others were more circumspect, saying only that they wanted to present the pertinent “facts” so that employees could draw their own conclusions.<sup>35</sup>

An example of these employee education programmes was that offered by Du Pont entitled “How Our Business System Operates” (HOBSO). It involved three 90 minute discussion sessions with groups of 20 employees on company time. The course taught ideology rather than economics or company operations and emphasised the achievements of free enterprise whilst emphasising the threat of socialism. It stressed the importance of profits and competition and economic freedom and attacked government controls.<sup>36</sup>

NAM adopted HOBSO and distributed it to other companies. It trained company personnel to use it and be discussion leaders.<sup>37</sup> By the middle of the 1950s more than 500 firms had participated in training sessions on HOBSO and its successor HOBSO II.<sup>38</sup>

It was estimated that economic education programs and Ad Council advertising “reached, to a greater or lesser extent, about 70 per cent of the American population”.<sup>39</sup> This ‘economic education’ campaign largely succeeded in turning most Americans into free-market believers, suspicious that government interventions eroded individual freedom and invited socialism into their midst. By 1955 studies found that the community was much more supportive of industry. A majority of those surveyed agreed that the interest of employers and workers were the same and the vast majority of Americans said they approved of large corporations. They were now more concerned about Big Labour and Big Government than Big Business.<sup>40</sup>

The earlier post-war business campaigns in the US were scaled down after President Eisenhower, a friend of business, was elected in 1952. However, this was not the last of the campaigns to assert business values and in the 1970s corporations again renewed their campaign to promote business values and policy goals.

### **Responding to the Counter-Culture Movement**

During the 1970s when confidence in free enterprise declined again corporations became politically active, getting together to support a conservative anti-regulatory agenda and financing a vast public relations effort aimed at regaining public trust in corporate responsibility and freedom from government regulation. The Ad Council launched another major campaign to promote free

enterprise in 1976. It was supported by so many major corporations that the Council boasted the list of supporters read like a “who’s who in American business”.<sup>41</sup> It was also supported by the US Department of Commerce.<sup>42</sup>

The continuous campaign in favour of free enterprise has been described as “the most elaborate and costly public-relations project in American history.”<sup>43</sup> The multimillion dollar campaign included media advertisements, dedicated newsletters, films, teaching materials and training kits, booklets, point of sale displays, messages on envelopes, and flyers included with bank statements, utility bills and insurance premium notices.<sup>44</sup> The media contributed \$40 million of free time and space to the campaign in the first two years.<sup>45</sup>

The unstated premise of the campaign, as before, was that if people were educated to view the free enterprise system as business people saw it they would appreciate and defend it rather than criticise it. In the lead up to the campaign, Compton Advertising undertook surveys of public attitudes to the economic system. The table below shows some of the questions that were asked with the ‘correct’ answers indicated by a tick.

|   | Agree   | Disagree | Don’t Know |
|---|---------|----------|------------|
| Business alone decides what will be produced  | 38.6%   | 59.8% ✓  | 1.6%       |
| The primary role of business is to provide goods and services the country needs   | 77.9% ✓ | 21.5%    | 0.6%       |
| In general, when business profits are up, times are good and life is better for more people                             | 81.1% ✓ | 18.3%    | 0.6%       |
| Overall, the American economic system offers more freedom and opportunity to better oneself than other economic systems | 91.6% ✓ | 7.3%     | 1.1%       |

\* “signifies correct response”

Source: Compton Advertising. ‘Study on Advertising Awareness and Understanding of the American System: Benchmark, Phase I.’ Compton Advertising. June 1976.

Although the Compton survey found most people were in agreement with business values indicating that the earlier employee and school campaigns had been successful, the Ad Council believed that these positive attitudes needed to be more widespread and harnessed to ensure that people understood that protection of the economic system meant leaving it unregulated and unchanged.

The campaign juxtaposed personal, political and economic freedom, arguing that constraints on economic freedom were tantamount to reducing personal and political freedom and that those who sought to “intervene excessively in the play of market forces,” however well intentioned they might be, posed a major threat to those freedoms. Criticism of the economic system amounted to subversion of the political system.<sup>46</sup>

The campaign sought to get maximum distribution of a booklet on *America’s Economic System... and your part in it*. The booklet was in colour and illustrated with *Peanuts* cartoons. It described the economic system in simple, idealised terms. It promoted the idea that everyone not only had a stake

in the economic system but also had a say in it. It argued that everyone helps to make decisions in the system—governments, producers and especially consumers: “the key role that really makes everything work is played by you, in your role as consumer.” Ordinary people also play a role as producers—“Workers are producers”—and as investors—“if you have a savings account, own life insurance, or are in a pension fund, you are helping to generate funds for investment purposes.”<sup>47</sup>

The booklet emphasised the importance of hard work and increasing productivity “if we are to maintain competitiveness in selling goods and services both at home and abroad”. It reinforced the need for consumers to spend their money buying goods to ensure the security of their jobs: “Remember when we buy less than our economy is producing, eventually production goes down and unemployment increases.” Naturally, it also defended the role of advertising: “Those who supply the best goods and services at the best prices generally will be the most successful. And it is through advertising that producers inform buyers about their goods and services....”<sup>48</sup>

The booklet was careful to downplay the amount of profits made by corporations. It did this by using averages of all businesses and arguing that the profits made by corporations were small compared to the aggregate income of all individuals. It emphasised that the economic system was responsible for the high standard of living in the US and that personal freedom was intimately connected with economic freedom.<sup>49</sup>

The Ad Council distributed millions of copies of these booklets to schools, workplaces and communities – some 13 million by 1979.<sup>50</sup> According to the Council, advertisements for the booklets were sent to every media outlet and every magazine in the country. It was advertised free:

- on over 400 television stations;
- on over 1000 radio stations;
- in over 3000 daily and weekly newspapers;
- in over 400 business and consumer magazines;
- on thousands of counter cards in libraries, banks and stores;
- on over 110,000 transit cards in subways and other transport venues (over \$25 million of measurable free time and space).<sup>51</sup>

The booklet was reproduced in full in over 100 newspapers and magazines. Over 1,800 companies, 1,300 schools and 500 organisations ordered bulk copies for employees, students, members.<sup>52</sup>

A second stage of the campaign launched in 1977 involved a huge advertising campaign centred around the idea of an Economics Quotient (EQ) — an obvious reference to IQ. Advertisements asked “How high is your EQ?” or “Do your kids have a higher E.Q. than you?” and included quiz questions and answers so people could test themselves. The idea was to make people feel ignorant so that they would write away for the booklet, whilst at the same time making an ideological point. The “basic economic questions” in the advertisements included:

True or False.

In 1975, the investment in equipment and facilities averaged almost \$41,000 for each production worker in American industry.

[Answer: true]

True or False.

If you have a savings account, own stock, bonds or life insurance, or are in a pension fund, you are an investor in the U.S. economy. [Answer: true]

The Ad Council produced two more booklets that year, one on employment and one on inflation and these were also subject to mass distribution. Also a picture book version of the original booklet was prepared for “low-level readers” and children.<sup>53</sup>

The Council’s ‘economic education’ campaign was supplemented by the efforts of many individual corporations, trade associations and chambers of commerce. Some companies again offered their own employees economic ‘education’. Teacher education was also targeted by individual corporations because of the influence of teachers on millions of children.

Corporate sponsored classroom materials were also produced for the purpose of selling the free enterprise system to school children. Four million packages of *Industry and the American Economy* (an 11 booklet package), were distributed to students and teachers all over the nation.<sup>54</sup> Corporate money also financed a television show on economics featuring a leading neoliberal economist, Milton Friedman, and another “In Search of the Real America” featuring a fellow from the conservative think tank, the American Enterprise Institute.<sup>55</sup>

Various oil companies got involved. Phillips Petroleum Company supported the production of a series of five films entitled “American enterprise” with an accompanying teachers guide. It cost \$800,000 and reached over 8 million students. Amoco Oil Company also produced a 26 minute film and teachers guide to explain how the free enterprise system works. The Exxon Company got together with Walt Disney Educational Media Company to produce a 22 minute film for high school students about two children that go into business.<sup>56</sup>

The US Chamber of Commerce produced films, teaching materials and booklets on the economic system and a package entitled “Economics for Young Americans” that included film strips, audio cassettes, lesson plans and text on productivity, profits and the environment.<sup>57</sup> Local chambers of commerce also participated in the campaign. The National Education Program produced “full color animated cartoons”; flannel board presentations; a monthly newsletter; a weekly column for newspapers and trade publications; audio-taped and printed speeches; a Do-It-Yourself Materials Kit for organising a one-day forum; and a number of films on topics such as “A Look at Capitalism” and “The Spirit of Enterprise”.<sup>58</sup>

In the late 1970s US business was spending a billion dollars each year on propaganda of various sorts “aimed at persuading the American public that their interests were the same as business’s interests.” The result of all this expenditure showed in the polls when the percentage of people who thought that there was too much regulation soared to 60% in 1980 (up from 22 per cent in 1975).<sup>59</sup>

By 1978 US business had “clearly regained the political initiative” and defeated many of the regulatory measures hard won by public interest activists.<sup>60</sup> By 1986 27 states required some form of economics education in primary and/or secondary schools on the assumption that “popular misconceptions lead to bad policies”.<sup>61</sup>

## **Australia**

Economic education spread from the US to other English speaking countries during the 1970s and 1980s. In Australia, after the election of the Labor government in 1972, the Australian Chamber of Commerce (ACC) reacted with a nationwide ‘economic education campaign’ to promote free enterprise.<sup>62</sup>

ACC's Economic Education programme was the "centre piece of our activities in public opinion forming about the role of business in the community, especially amongst the young" and, like the US campaigns, was in response to concern "at the widespread lack of understanding of economic facts of life by the general public".<sup>63</sup> ACC ran a series of essay competitions for students; surveyed and evaluated existing economics and commerce courses in Australian schools; and recommended changes to the Departments of Education in each state to ensure that students would learn the 'correct' view of how private enterprise works.<sup>64</sup>

ACC produced some 15 videos and films "for instructional use in schools" in cooperation with the Productivity Promotion Council of Australia, the Institute of Public Affairs (a conservative think tank), the Sydney Stock Exchange and "two of Australia's major companies". Its first series of videos, entitled "Business in the Community", was on the contribution of companies and specific industries to the wellbeing of Australian society with an emphasis on the role of adequate profit in maintaining employment and economic growth. The ACC wanted to "counter the view that the only concern of business is profits".<sup>65</sup>

The Departments of Education in each state agreed to use ACC materials and to include them in Department Resource Centres. The ACC also claimed "good relations with Teachers' Associations throughout Australia". It encouraged and facilitated city-based chambers of commerce to undertake their own educational programs.<sup>66</sup> The ACC also produced a "Guide to Employee Economic Information Programmes" for employers to undertake economic education with their employees and distributed it to some 450 companies.<sup>67</sup>

Enterprise Australia (EA) was set up in 1976, as an offshoot of the Australian Free Enterprise Association (AFEA), which was established in response to perceived threats to free enterprise. AFEA's initial funding came from CIG, Esso, Kodak, Ford Motors, and IBM.<sup>68</sup> Keavney, CEO of EA, saw two main threats to free enterprise in Australia. One was the encroachment of government into "areas best left to the productive private sector" and the other "the widespread public misconceptions" about business such as the size of profits and who benefits from them.<sup>69</sup>

EA sought to show that private enterprise contributed to "Australia's way of life" and standard of living and to "emphasise the dangers to our society of unnecessary regulations". This was the message it spread to educational institutions, the media, small business and employees.<sup>70</sup> EA's schools and colleges programmes were "developed within schools systems in official association with Departments of Education" in each state. These included:<sup>71</sup>

- a core text book *The World of Business in Australia* (an adaptation of a Canadian text) with teachers guide, student's workbook and audio-visual material;
- topic books for primary schools;
- a 22 module audio-visual course on economic concepts for secondary schools ("produced in cooperation with NSW Department of Education");
- work experience programmes for teachers and for students; conferences for secondary school students; workshops for teachers;
- a magazine for teachers;
- a clearinghouse of industry-provided 'educational' materials for schools;
- and a programme in which business executives spent one or two weeks in schools.

EA also produced fifteen videos and films with titles such as *Profits, Advertising and The Market Economy*.<sup>72</sup>

Various teachers unions attacked EA materials as propaganda. Nevertheless the educational authorities seemed to welcome this material into schools, and EA was careful to get the endorsement of selected teachers, public servants, academics and politicians of both major parties.<sup>73</sup> After the Labour government was elected in 1983 Enterprise Australia continued to have government support, and prime minister Bob Hawke's public endorsement.<sup>74</sup>

Other organizations that actively sponsored economic education in Australia included the Australian Bankers Association, the Australian Mining Industry Council, the Australian Industries Development Association (later merged with the Business Roundtable to form the Business Council of Australia), the American Chamber of Commerce in Australia, and conservative think tanks such as the Centre for Economic Development in Australia (CEDA). They ran conferences and made presentations to teachers, business people and school students.<sup>75</sup>

By 1979 the proportion of people who thought the government should cut taxes rather than spend more on social services had increased to 59 percent compared to 26 percent in 1967.<sup>76</sup> Similarly the percentage of people who thought unions had too much power had increased from 47 to 78.<sup>77</sup> Such a reversal of opinion was unusual and could be accredited to the onslaught of business propaganda.

## Conclusion

The campaigns of the 1940s and 1970s prepared the populace for the neoliberal onslaught that was to follow. Economic education has now become mainstream. It is no longer an obvious expression of the campaign to sell free enterprise but rather is disguised as a means to give children and young adults the necessary economic knowledge to live successful lives and understand the world around them. Who could fault such a noble motive?

Nonetheless the groups that are pushing for economic education to be mandatory in schools have an ideological agenda and the economic standards they are promoting have an ideological bias. As J.K. Galbraith points out:

mainstream economics has for some centuries given grace and acceptability to convenient belief—to what the socially and economically favoured most wish or need to have believed. This economics, to repeat, is wholly reputable; it permeates and even dominates professional discussion and writing, the textbooks and classroom instruction.<sup>78</sup>

To serve this function Galbraith notes that it must have three aspects. Firstly it needs to provide a rationale for minimising government intervention. Secondly it needs to justify “untrammelled, uninhibited pursuit and possession of wealth” in terms of the common good. Thirdly it needs to explain poverty and unemployment in terms of the individual faults of those who find themselves in that situation.<sup>79</sup> Economic education sought to provide all three.

Clearly ‘economic education’, in schools, workplaces and in broader public fora, plays a crucial role in achieving capitalist hegemony.

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<sup>1</sup> John Gray. *False Dawn: The Delusions of Global Capitalism*. London: Granta Books. 2002, p. 3.

- <sup>2</sup> Elizabeth A. Fones-Wolf. 'Beneath Consensus: Business, Labor, and the Post-War Order.' Doctor of Philosophy, University of Massachusetts. 1990, pp. 3, 40, 422.
- <sup>3</sup> Harvard Business Review article cited in Editorial. 'Business Is Still in Trouble.' *Fortune* May, 1949, p. 68.
- <sup>4</sup> Fones-Wolf. 'Beneath Consensus: Business, Labor, and the Post-War Order.' , pp. 47-8, 117.
- <sup>5</sup> Robert Lynd quoted in *Ibid.* , p. 39.
- <sup>6</sup> *Ibid.*, p. 422.
- <sup>7</sup> Alex Carey. *Taking the Risk out of Democracy*, ed. Andrew Lohrey. Sydney: UNSW Press. 1995, p. 27.
- <sup>8</sup> Quoted in Stuart Ewen. *PR! A Social History of Spin*. New York: Basic Books. 1996, p. 360.
- <sup>9</sup> Quoted in Carey. *Taking the Risk out of Democracy.* , p. 30.
- <sup>10</sup> Robert Griffith. 'The Selling of America: The Advertising Council and American Politics, 1942-1960.' *Business History Review* Autumn, 1983, p. 401.
- <sup>11</sup> Advertising Council quoted in C. C. Carr. 'Translating the American Economic System.' *PR Journal* 5 (6), 1949, p. 4.
- <sup>12</sup> Griffith. 'The Selling of America.' , p. 400.
- <sup>13</sup> *Ibid.*, p. 402.
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# **Hegemony: Explorations into Consensus, Coercion and Culture**

**A workshop at the University of Wollongong  
14 & 15 Feb 2005**

**Neo-liberalism and neo-liberal hegemony in Australia**

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## **Neo-liberalism and neo-liberal hegemony in Australia**

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This paper examines the extent to which neo-liberalism is hegemonic in Australia today. It sketches the main contours of neo-liberal hegemony and makes some tentative conclusions about the state of neo-liberal hegemony in Australia. The examination is necessarily limited and exploratory. Little work has been done in this area, and the sort of thorough examination of neo-liberal hegemony in Australia which would be required to do the topic justice is beyond the scope of the current paper.

In employing the concept of hegemony as a form of class rule, this paper owes a clear debt to the prison writings of Antonio Gramsci. I do not propose, however, to derive, from Gramsci's often fragmentary writings, a schema which explains how hegemony operates. Indeed, such an enterprise may not even be useful. Instead I am guided in my examination of neo-liberal hegemony in Australia by the questions Gramsci asked about Italian capitalism in the 1920s and 1930s.

Hegemony is the organization of consent to a particular set of class relations. In investigating the extent to which neo-liberalism is hegemonic in Australia, and therefore the extent to which neo-liberalism has developed a social base, it is useful to consider what neo-liberal hegemony would look like – what would be the particular components of a neo-liberal hegemony? How does one evaluate the organization of consent to neo-liberalism?

For a set of social relations to be considered hegemonic I think the following broad conditions would apply: the existence of a class, or an alliance of class forces, which are the prime beneficiaries of, and are committed to maintaining and extending, a particular set of social relations; the absence of significant organised opposition to such social relations, and; the development of subjectivities, within the subordinate classes to such social relationships, consistent with the legitimation and naturalisation of such relationships. These criteria will be applied to neo-liberalism in order to ascertain the extent to which it has managed to secure hegemony in Australia.

This paper is not evaluating capitalist hegemony. It is the assumption of this paper that capitalism in Australia in the early twenty-first century, is hegemonic. That is, the social relations which create the private and concentrated ownership of the means of production, distribution and exchange, and which transform labour power into a commodity are secure. In fact, capitalism in Australia, and indeed internationally, is at the moment quite possibly under fewer direct challenges than at any time since its origin. Rather what we are examining here is the hegemony of the particular way in which capitalism is organised in Australia in the early twenty-first century.

### **Neo-liberalism and neo-liberal hegemony**

There is much confusion surrounding neo-liberalism. Many on the Left, while criticising neo-liberalism for not delivering on its promises of prosperity and liberty, also accept at face value claims made by neo-liberals that the dismantling of the welfare state has created a system of ‘free market capitalism’ and has led to a ‘withering away’ or ‘retreat’ of the state. In contrast, the approach adopted here recognises that the state, under neo-liberalism, continues to play a strong, active, interventionist and coercive role.

That the state has a crucial role under neo-liberalism should not be surprising. The state has always been central to the reproduction of capitalist economic relations. As Jessop writes, ‘the capital relation cannot be reproduced entirely through market exchange’ (Jessop, 2002: 18). The state is crucial for providing the framework within which capitalist relations can exist through such activities as the provision of infrastructure, the regulation of markets, the maintenance of ‘social cohesion’ (Jessop, 2002: 21) or the correction of ‘market failure’ (Jessop, 2002: 41). Following from this, we can conclude with Bell that ‘the neoliberal concept of a ‘free market’ is a contradiction in terms: markets are always and everywhere artefacts of state power and regulatory capacity’ (Bell, 1997: 258).

Gramsci himself may well have agreed with such a position. Writing on ‘lassiez faire liberalism’ he argued that it is ‘a form of State “regulation”, introduced and maintained through legislative and coercive means’ (Gramsci, 1971: p. 160). So too with neo-liberalism. It is a particular mode of regulation in which the state acts to secure freedoms for capital. Neo-liberalism did not simply arise organically out of the crisis of the Keynesian welfare state from the 1970s onwards (see for example Arrighi, 2002). Rather, the economic crisis of the 1970s provided the context for a mobilisation by particular fractions of capital in an attempt to shape state policy making in their own interests. In Australia, for example, Bell (1997: 81, 116-7) has written of a ‘neo-liberal coalition’ and Kaptein (1993: 103) of a ‘neo-liberal power bloc’ which brought together leading fractions of Australian capital and which actively pursued the dismantling of the key institutions and social truths underpinning the Australian Settlement – tariff protections and arbitration – as well as those underpinning Australia’s post-war Keynesian welfare state. This was not merely a mobilisation aimed at increasing capital’s profitability, it was also an attempt to diminish the power of organised labour which had been bolstered in the post-war years by full employment and, in the late 1960s and into the 1970s, by militant unionism. This is captured by Berger who argues, ‘a defining characteristic of the rise of neo-liberalism has been an historic victory of capital over labour’ (Berger, 1999: 453).

Neo-liberalism, then, is a particular mode of regulation that seeks to overturn and dismantle the hegemonies and institutions that constituted the post-war class compromise, and to further socialise the costs of capitalist profitability. In doing this neo-liberalism entails a deepening of the processes of commodification, a transfer of power from labour to capital, and a transfer of resources from public to private. The state has

been central to this process. As Tim Anderson argues, neo-liberalism in practice has meant:

a market re-regulation to guarantee new and profitable markets to large corporations, and a social re-regulation to restrict the meaning of citizenship, where this conflicts with the delivery of profitable markets to large corporations (Anderson, 1999: 18).

Nor is this a mere semantic distinction, for the interventionist role of the state under neo-liberalism is crucial to the prospects of securing hegemony. The state acts to secure the hegemony of neo-liberalism by attacking and disorganising opposition, subsidising leading fractions of capital, regulating the population and promoting hegemonic discourses. We should not then interpret an activist state or ‘big government’ as evidence of a retreat from neo-liberalism, rather as a possible manifestation of it.

Neo-liberalism, then, is a particular manifestation of class rule in which the state plays a central role. Following from this, and from the previous discussion of hegemony, it is now possible to sketch what neo-liberal hegemony might look like. For the neo-liberal mode of regulation to be considered hegemonic, I posit that the following conditions would need to be present:

- the absence of significant organised opposition;
- the existence of a neo-liberal ‘power bloc’ – an alliance of social forces, which is the primary beneficiary of, and is committed to, a coherent neo-liberal project;
- the existence of subjectivities consistent with the neo-liberal mode of regulation. Neo-liberal subjectivities would involve the dismantling of older social truths and their replacement with new social truths (and in this sense Paul Kelly’s (1994) *The End of Certainty* is an appropriate description of contemporary Australian political culture). Examples of subjectivities consistent with the neo-liberal mode of regulation would be:
  - Public goods being viewed as private commodities;
  - A reification of human relationships;
  - An individualistic (non-solidaristic) self-identification – an inability to view the other as oneself

With these guides in mind we can now sketch the contours of neo-liberal hegemony in Australia.

### **Neo-liberalism and everyday life**

Through an analysis of the ways in which people encounter neo-liberalism in their everyday lives, it is possible to speculate about the likelihood that subjectivities consistent with the neo-liberal mode of regulation are emerging and to map the basis of support for and opposition to neo-liberalism. Encounters with the broader post-Fordist regime of accumulation are also examined for the ways in which they transform the

experience of everyday life and contribute towards a social base of support for or opposition to neo-liberalism. I have divided this discussion into three parts, each of which examines a distinct sphere of everyday life: production, consumption, and social geography. My focus here is on the experience of non-owners, although petty bourgeois producers will also be discussed. As shall be argued later, the capitalist class as a whole in Australia is wedded to the neo-liberal project.

### *Production*

Because a significant dynamic of the neo-liberal state project has been the attempt to transfer power from labour to capital, work has been a key site of struggle and change. Most important of such changes has been the deregulation of the labour market. Largely at the behest of employers, but also responding to the disciplines of international capitalist markets, successive governments from Malcolm Fraser's Liberals onwards have dismantled many of the regulations and institutions governing labour in Australia that had emerged out of class struggles from the late nineteenth century onwards. This process entailed removing existing restrictions placed upon capital in the labour market and codifying new regulations designed to restrict the ability of workers to organise collectively.

Broader changes in the organization of production have also had a significant impact upon restructuring Australians' experiences of work. Two processes are at work here. The first is the development of a post-Fordist regime of accumulation which, at the macro level, has seen a restructuring of the sectoral mix of Australian capitalism, and at the micro level has seen greater casualisation, greater job insecurity, the lengthening of working time and redundancy through efficiency improvements. Finance sector and other 'service industry' jobs have burgeoned in this period, while the employment shares of manufacturing and primary industries have declined. These changes have been facilitated by the deregulation of labour markets, but also by other neo-liberal measures such as the floating of the Australian currency and the deregulation of the financial sector, which exposed Australia much more to the disciplines of the international economy.

In terms of neo-liberal hegemony, three broad conditions emerge out of these trends. First, while some workers have benefited from the neo-liberal economy, the growth areas have been in casual work that is insecure and, apart from a slightly higher per hour remuneration, has few of the benefits of permanent employment, and part-time work. Ian Watson argues that 'part-time casual employees are actually penalised by virtue of working as casuals' (Watson, 2004: 1).

Second, since perhaps the mid-late 1980s, there has been a shift in relative bargaining power from labour to capital. Some of the structures that sustained unionisation have been gradually dismantled through labour market deregulation; traditionally unionised industries have declined in employment density and sustained unemployment has eroded the strong bargaining position of labour. So, as will be discussed in the next section, while work remains exploitative and alienating under neo-liberalism, the collective

structures developed to ameliorate and combat this, and which existed both inside and outside of work, have been eroded.

Third, while the manufacturing and primary industry sectors are still crucial elements of the Australian economy (and in mining and manufacturing unionism is still quite strong and militant), the trend in work is much less towards collective production than the direct facilitation of consumption. One result is that individuals increasingly encounter each other through consumption – through the medium of commodity exchange. This is further exacerbated by the fact that non-employing firms (the owner-worker) make up over half of small businesses in Australia (ABS, 2002).

We can see in these conditions the emergence of some elements of what we might call a neo-liberal subjectivity. It is possible that the decline in union membership and slow move towards individual contracts, which pit worker against worker, are evidence of a decline in solidaristic identification. However, a recent survey found that around 50 per cent of workers would like to be members of a trade union (Bearfield, 2003), suggesting perhaps that the insecurity, intensification and lengthening of work is creating discontent. This throws the hegemonic nature of neo-liberalism into question.

Perhaps more far-reaching are the conditions engendered – by changes in the nature of production – for the reification of human relations. When meeting others through capitalist commodity transactions, and when we are encouraged to view ourselves as individual units of labour competing with others (as we are under individual contracts), then we are being encouraged to reify our relationships with others. Offering evidence for such a process, Nathaniel King, in a recent study, tracked the development of a ‘new working self’ in which individual workers are encouraged to develop their marketable attributes and compete with others, which was aggressively promoted by employers and recruiters from the late 1970s onwards to break older working subjectivities associated with the post-war full employment regime (King, 2004). It is therefore likely that at the same time as neo-liberalism, through increasingly exploitative working conditions, is creating material conditions for discontent, working subjectivities are developing which support the broader neo-liberal agenda of a deepening of the processes of commodification.

The other aspect of production worth considering is unemployment and welfare. Relatively high unemployment has been a persistent feature of Australian life since the mid 1970s. Initially this resulted from the economic crisis induced by the oil price hike of 1973. Since then however, governments have traded low inflation for higher unemployment. This has served the interests of capital in general by maintaining a reserve army of labour and finance capital in particular by ensuring a low-inflation environment in which profitability is more easily realised. The existence of a reserve army of labour is an important factor in reconciling people to exploitative productive relations. It also creates a convenient means by which governments and employers can shift blame for unemployment to the unemployed themselves by claiming that unemployment is a product of the attributes of the unemployed rather than of the structure of Australian capitalism. New regulatory regimes for the unemployed (such as

punitive surveillance techniques like work for the dole) are designed to encourage the unemployed to police themselves: either by forcing people off welfare and into accepting exploitative working conditions, or; internalising the notion that self-improvement is the key to employment. While this is occurring, another probable effect of persistent unemployment and the demonisation of the unemployed by the media and both major political parties is the alienation of the unemployed from an identification with any state institution or nation-building program.

### *Consumption*

Several aspects of Australians' experience as consumers are crucial to an evaluation of the extent to which neo-liberalism is hegemonic.

The neo-liberal restructuring of the state has radically transformed the relationship between citizens and public institutions. Other aspects of the consumption of private commodities also provide the basis for the possible development of neo-liberal subjectivities and provide the underlying conditions for securing neo-liberal hegemony in Australia.

In order to survive, capitalism must continually reinvent itself, and part of this reinvention is the creation of new markets and new desires. We can see this in the current housing boom as well as other markets sustained through debt-financed consumption. Just as in the 1950s and 1960s when magazines, radio and, later, television played an important role in shaping desires by explaining and introducing new commodities to Australians (Whitwell, 1989), so do they perform a similar function today. One need only look at the recent explosion of home-ware programs to see this process in action. The availability of credit has been the other crucial factor. Sustaining economic growth in Australia has been debt-financed consumption (Wilson and Turnbull, 2000) – whether it be loans or credit cards. Various home-buyers grants from both state and federal governments have helped stimulate demand for property ownership. Clearly this puts many people in a precarious financial position that is sensitive to sudden changes in interest rates and employment status. It also is a key element underpinning the neo-liberal power bloc, as it provides the conditions through which finance capital retains its dominant position. Such debt-financed consumption has implications for the realm of production as well. With so many locked into debt, it is possible that people are more willing to put up with the extra exploitation characteristic of work under the neo-liberal mode of regulation. In this sense, debt-financed consumption acts as a form of labour discipline – it reconciles people to their own exploitation and functions in this sense much like a reserve army of labour (for discussion of this see Pocock, 2003: 43ff.)

One of the defining features of the neo-liberal mode of regulation is the transfer of resources from public to private. Education and health-care are good examples. In terms of hegemony the question is to what extent this process is encouraging an increasing number of people to see their material interests served by the expanded reproduction of neo-liberalism. In effect, is the transfer of resources from public to private generating a social base for neo-liberalism?

In the arena of education for example, the federal government has for some time been transferring resources from the public to the private systems. Under the current government, this process is quite pronounced. One of the effects of this is to make the public system less attractive and the private system more attractive to parents, particularly to middle income earners. A steady stream (rather than the torrent as reported in media outlets) of enrolments is therefore shifting from public to private. As this flow of funding and enrolments continues, it seems reasonable to argue that it is also generating a growing constituency for the public funding of private schools and the erosion of funding for public schools, and hence for elements of the neo-liberal state project. More broadly, as the guarantee of being entitled to universal quality public services is dismantled, to be replaced with a public safety net, the conditions are created in which user-pays regimes become normalised. However, there is also a manifest unfairness in the public subsidisation of privileges such as private education. Despite an almost unanimous defence among politicians and journalists of such subsidies, they are generating increasing anger among people who are forced to rely upon the public system.

At the same time, citizens are treated as ‘customers’ and are encouraged to think of themselves as such. There is a material basis to this, with citizens increasingly being charged for the use of public services, and public and private providers increasingly vying for the same customer base.

### *Social geography*

The dynamics of Australian capitalism have brought about major changes in the social geography of urban and rural areas during the last few decades.

The reorganisation of production that has occurred in Australia might not have altered the fundamental relations between capital and labour, but it has radically transformed Australia’s social geography. As the composition of the working class has changed, so too have working class communities changed.

In terms of employment, Australia has witnessed a decline in heavy industry (manufacturing, mining, shipping, wharves etc.) and a growth in the ‘services’ sector. This of course includes jobs as diverse as supermarket workers, teachers and stock brokers, but the common effect has been three-fold:

- an increase in unemployment in areas in which manufacturing and primary industries were formerly located, and;
- the breaking of the link between employment and community (that is, an end to employment-in-community) and;
- an increasing importance of the arena of consumption as a social space.

In a similar dynamic to the changes in production, these changes in social geography have partly been a consequence of the unfolding dynamics of the broader post-Fordist regime of accumulation, and partly also facilitated by neo-liberal restructuring – such as

the deregulation of the finance sector and the dismantling of tariff protections, both of which have subjected the Australian economy far more to the discipline of globalisation.

One effect of these changes has been the disorganisation of labour. Where once employment was concentrated within working class communities, which provided a good basis for labour mobilisation, the reorganisation of production in Australia has seen employment in such communities decline and, in some areas, the ‘gentrification’ of former working class communities. Consequently, the relationships between production, community and geography around which labour once organised are far less prevalent, which has contributed to the disorganisation of labour. Part of these changes has been the increased importance of sites of consumption as social spaces. Of course, sites of consumption are usually also sites of employment, but the labour movement has yet to adequately respond to these new realities.

Rural and working class communities have felt the effects of changes in social geography disproportionately. The loss of industries which once provided the rationale for a community’s existence have been keenly felt and the geographical retreat of service capital in the wake of such changes has compounded their effects in rural and regional areas. This has provided some of the material underpinnings of support for Hansonism, as well as for the phenomenon of rural independents such as Peter Andren, Bob Katter and Tony Windsor, all of whom run on an explicit anti-neo-liberal platform.

### **Organisation of support and opposition**

Capitalism in Australia faces no serious organised opposition. Indeed, in terms of legitimacy, capitalism is perhaps more secure today in Australia and, indeed, internationally, than at any other time in its history. But what of neo-liberalism?

It is relatively straightforward to map the organised support for neo-liberalism. Many major centres of power are committed to extending the neo-liberal mode of regulation. This includes virtually all of the capitalist class in Australia, the leadership of the major political parties, most state elites and most leading political and economics commentators in the media. While there still may be some differences between domestic producers and other capitalists over issues such as tariffs and other import restrictions (such as the Australia-China FTA), capital in Australia is united over the desirability, even necessity, of extending the neo-liberal mode of regulation, particularly the further deregulation of the labour market – this is the meaning of ‘labour market reform’.

The neo-liberal state project is both coherent and well organised. Employer associations such as the Business Council of Australia (BCA) and the Australian Chamber of Commerce and Industry (ACCI) consistently promote a neo-liberal agenda to government, while corporate funded think tanks such as the Institute of Public Affairs and Centre for Independent Studies produce a continual stream of vitriol justifying neo-liberal exploitation and dispossession in ethical terms, and demonising opposition to same. Many economics and political journalists assume that there is no alternative to neo-

liberalism. While neo-liberalism has always been allied with racism and nationalism within the new right, such discourses have recently been employed strategically by both major political parties to harness the anxieties generated by neo-liberalism and create a solid electoral base. For the Coalition, this has been particularly successful.

Opposition to neo-liberalism is less coherent and less well-organised. The response of trade unions to neo-liberalism, I contend, is one of the main reasons for this. It was under the Labor governments of Hawke and Keating that Australia embarked in a coherent and deliberate fashion on the state project of neo-liberalism. In many respects the Hawke and Keating governments were more radical than Howard, with the Australian state and economy undergoing a significant qualitative change between 1983 and 1996. And it was with the active support of the trade union leadership that the neo-liberal mode of regulation was able to be implemented. Through the Accord, the ACTU and Labor government ensured that there would not be the sort of social rebellion which characterised the implementation of neo-liberalism in Britain under Thatcher. In effect, the trade union leadership oversaw the process whereby power was transferred from labour to capital. Since the defeat of Labor in 1996, the trade union movement has failed to mount a coherent opposition to neo-liberalism. By and large (with the possible exception of the AMWU) unions have not responded to changes in the organization of production, nor have they responded to the social consequences of neo-liberalism. They have tied themselves to a party that is committed to the neo-liberal state project and which is tied to the interests of capital. Despite surveys suggesting that around half of Australian workers would like to be represented by a trade union, membership continues to decline as a percentage of the workforce, particularly in the private sector. On the other hand, the MUA dispute, in which hundreds of thousands turned out to defend the principles of collective organization against the state and employers, demonstrated that the union movement does still have strong roots in some sections of the community.

Where opposition to neo-liberalism has emerged, from trade unions and elsewhere, it has been primarily defensive: defending institutions of the Australian settlement or post-war welfare state institutions that belong to an earlier regime of accumulation and state project. While this has undoubtedly slowed the advance of neo-liberalism, it has not held out viable alternatives. To borrow from Boris Frankel, many opponents of neo-liberalism are ‘living “one society behind reality”’ (Frankel, 2004: 71). Although there have been some political-economic alternatives articulated against neo-liberalism, few of these have been taken up by organised opposition.

One moment of radical organised opposition to neo-liberalism was the anti-globalisation movement, which exploded into public awareness at the Seattle protests in 1999, and had a brief life in Australia. Its high point was the s-11 protests outside the WEF meeting in Melbourne 2000. Like its counter-parts overseas, the Australian movement was disparate and had no clear alternative political economy to neo-liberalism. It brought together socialists, environmentalists, social democrats and those simply concerned about excessive corporate power. Around 20,000 gathered in Melbourne. By the ‘M1’ protests the following year it was clear that the movement had lost momentum. Only a few hundred turned out to the ‘alternative May Day’ event and there was little support from

trade unions. Since then the anti-globalisation ‘movement’ has existed primarily through a series of marginal events and networks of unionists, academics and professional activists – it is rarely expressed through large scale collective action.

Such a lack of organised and articulate opposition belies the deep unpopularity of elements of the neo-liberal mode of regulation within the community. A number of surveys and opinion polls provide indicative evidence of this (see Pusey, 2003). Such unpopularity has, I believe, emerged as a result of the experience of neo-liberalism, and steams from two feelings: anxiety and loss. Anxiety is a result of economic insecurity, if not hardship. Loss results from the experience of public assets transferred to private ownership and control.

## **Conclusion**

To return to the criteria for hegemony established at the beginning of the paper, the state project of neo-liberalism in Australia enjoys a relative lack of organised opposition and there exists an organised and coherent alliance of forces which are its prime beneficiaries which and are committed to its maintenance and extension. Arguably, subjectivities compatible with the universal public provision of services and a solidaristic regime of full employment are being transformed to ones more suited to neo-liberalism. Based upon this I think it is fair to conclude that neo-liberalism in Australia is hegemonic. However, it is an unstable hegemony. Neo-liberalism’s greatest strength is the weakness and disorganisation of its opposition – for while it is gradually transforming subjectivities, the experience of neo-liberalism and the subjection of greater areas of life to the neo-liberal mode of regulation also generates hostility, anxiety and resentment, and creates structures of feeling which could be channelled against the neo-liberal project. To date, such feelings have often been channelled into nationalism, racism and antagonism towards the unemployed.

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# **Hegemony: Explorations into Consensus, Coercion and Culture**

**A workshop at the University of Wollongong  
14 &15 Feb 2005**

**The Descent of Political Economic Theory: Keynes,  
Keynesian economics, from bastardised  
Keynesianism to Neo Liberal Hegemony**

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## **The Descent of Political Economic Theory: Keynes, Keynesian economics, from bastardised Keynesianism to Neo Liberal Hegemony**

**Steve Reglar**

Keynes' attack on neo-classicism is an interesting example of the power of bourgeois hegemony. On one hand the less revolutionary aspects of his approach were largely reabsorbed into the mainstream and their revolutionary potential lost. On the other hand he was himself captivated by aspects of hegemony, such that he could not properly break free from neo classical thought and practice. Nonetheless, many aspects of Keynesianism were regarded as truly shocking to business executives, state officials and economists alike. At times Keynes appeared to destroy orthodoxy without realising exactly what he was doing. At other times Keynes sought support from neo classical orthodoxy when logically his overall position would seem to have indicated a more root and branch attack was needed. He attacked central canons of neo classicism such as Say's Law, their ideas about savings and investment and their concept of equilibrium based on the certainties of utilitarian judgement. Methodologically, his uncertainty principle in the *General Theory* implied a rejection of the totality of the neo classical theory of value and distribution. But, concerned by neo classical attacks on early drafts of the *General Theory*, Keynes did not extend his claims that far.

He chose to blunt his attack by conceding critical elements to opponents, such as the marginal productivity theory of distribution, and market allocation of resources, which paved the way for later neo-classical synthesisers and ultimately his neo liberal opponents to coopt his work. He attacked liberal individualist ontology, atomism and methodological individualism, but continued to defend much of neo classicism. Keynes was well aware of the existence of a monopoly sector in his time but chose to continue to regard the economy as fully competitive.

The change from Keynesianism to neo liberalism has brought with it more than a paradigm change in academic teaching and research, more than a paradigm change in policy formulation and implementation. Keynesian ideas have lost their currency and neo liberalism is hegemonic in public life generally.. Economics has replaced the *vita activa*,

civic duty and a democratic ethos. Not only has the ideology of individual choice replaced any serious attempt at finding the common good, but also the sphere of politics has been assaulted by economic calculation.

### Keynes and Capitalist Hegemony

The main argument of this paper is that Keynes' ideas were sidelined because he did not fully understand the role of hegemony in a bourgeois society. While having some appreciation of the role of classes in capitalist society and the ways the capitalist state enlists the ideas of philosophers and political economists, he did not systematically adapt such thinking to his overall analysis. While very knowledgeable about the operations of the state in both practice and theory, Keynes remained faithful to the liberal creed, which saw him defending individual liberties and an essentially liberal view of the state. Keynes' revolution was blunted because only those elements that suited the contemporary phase of capitalist development were adapted from his work.

In representing liberal corporatism and legitimating an interventionist role for the state Keynes ideas only achieved a partial hegemony. In part this was due to his ideas being appropriated in the neo classical synthesis. He also only achieved a partial hegemony in both civil society and the operation of the state. While Keynes could use his undoubted intellectual powers to gain attention, he was less able to spread the more radical of his ideas at the level of civil society or in policy formulation. His General Theory became one of those classics whose argument everyone felt familiar with but no one had actually read let alone understood. Keynes' ideas failed Gramsci's test to be hegemonic that they needed to become part of common sense understandings.

In outlining the grounds for achieving hegemony Gramsci argued:

The mode of being of the new intellectuals can no longer consist of eloquence, which is an exterior and momentary mover of feelings and passions, but in active participation in practical life as constructor, organizer, permanent persuader and not just a simple orator<sup>1</sup>

The argument of this paper is that Keynes could gain orator status for his work but not a role as a constructor, organizer or permanent persuader. To gain the later he had to

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<sup>1</sup> A.Gramsci, *Selections from the Prison Notebooks*, London, Lawrence and Wishart, 1971, p.10

address the question of conquering civil society, because achieving influence in the state is only the first task in replacing the old order.

In the West there was a proper relation between State and civil society, and when the State trembled a sturdy structure of civil society was at once revealed. The state was only an outer ditch, behind which there stood a powerful system of fortresses and earthworks<sup>2</sup>

The complexities of challenging the hegemonic status of many of the ideas that were opposed to Keynes' *General Theory* required more than an intellectual academic assault. They had to become absorbed into everyday mainstream use. They also had to be relevant to the state of capitalist political economy, the stage of the business cycle and a state's place in the worldwide development of capitalist accumulation.

Keynes attempted to manage capitalism out of its immediate crisis by changing as little as he could. But even Keynes' minimalist program was too strong a threat for capitalism to allow.<sup>3</sup>

#### Keynes and Neo classicism

Keynes' major undertaking was to explain the mass unemployment of the inter-war years. Contemporary, neo-classical economic theory essentially had two ways of explaining the depression and mass unemployment. The first was an ancient theory, the Quantity Theory of Money, which originated in John Locke and David Hume.<sup>4</sup> The theory held that the level of prices and economic activity in an economy was governed by the quantity of money a government allowed to circulate. Governments were also required to regulate the velocity of the circulation of money, meaning the number of times an individual piece of money enters into transactions in a year. Keynes, himself, did not dispute the elements of this theory until 1931. His colleague, economist Sir Denis Robertson, (later to accompany Keynes to Bretton Woods) was a prime exponent of this

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<sup>2</sup> L.Salamini, *The Sociology of Political Praxis: an Introduction to Gramsci's Theory*, London, Routledge & Kegan Paul, 1981, p.61.

<sup>3</sup> R.Jessop, *State Theory: Putting Capitalist States in their Place*, Pennsylvania University Press, 1990, pp. 183-189. 'Thatcherism: the British Road to post Fordism'. *Essex Papers in Politics and Government*, October, 1989

<sup>4</sup> Robinson and Eatwell, *An Introduction to Modern Economics.*, pp. 6-7. See also J. M. Keynes, *The Collected Writings of John Maynard Keynes*, Volume 7, *The General Theory of Employment Interest and Money* (hereafter *The General Theory*), Macmillan, London, 1977, pp. 343-4.

theory. Unlike most monetarists, Robertson did not, however, stress conservative financial management. With Keynes, he joined calls for increased government expenditure to overcome mass unemployment.<sup>5</sup> Nevertheless, Keynes' attack on the Quantity Theory of Money was central to understanding his major work, *The General Theory of Employment, Interest and Money*.

Second, most neo-classical economists sought to cut wages to overcome mass unemployment. Keynes had an ambiguous attitude to this position. Neo classical theory treated the labour market as essentially the same as that for most other goods and governed by the process depicted in Alfred Marshall's scissors graph. In general the equilibrium price of labour would occur when the value of the additional product from an additional worker (all other things being equal) equalled the price of labour. Economists, including Lord Robbins, argued for a cut in wages to reduce unemployment, as they alleged wages were in excess of the equilibrium rate.<sup>6</sup> Keynes thought such a policy was likely to increase unemployment in a closed economy.<sup>7</sup> But he chose to defend the marginal productivity theory in the *General Theory*.<sup>8</sup>

## THE ECONOMIC AND POLITICAL THOUGHT OF KEYNES

Keynes' main claim to fame was to provide reasons for the Great Depression, a depression which conventional economists of his day taught could not happen, even as the unemployed could be seen lining up for soup at kitchens outside their lecture theatres.<sup>9</sup> The argument Keynes sought to disprove was known as Say's Law. It stated that the process of creating all commodities also resulted in the creation of just enough

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5. M. Stewart, *Keynes and After*, Penguin, Harmondsworth, 1967, p. 66.

6. Lionel Robbins, *The Great Depression* (1935).

4. Keynes, 'The Economic consequences of Mr Churchill' quoted in R. Skidelsky, 'Keynes' in *Three Great Economists*, Raphael, Winch & Skidelsky, OUP Oxford, 1997. P. 253

8. Keynes, *General Theory*, *op.cit.* p.17.

9. R. Lekachman, *The Age of Keynes*, Allen Lane, London, 1967, pp. 68-70. See also J. Robinson (ed.), *After Keynes*, Blackwell, Oxford, 1973, p. 2.

purchasing power to buy all such commodities. Say claimed all people produce either to consume or to sell. Furthermore, all sell in order to buy some other commodity, which they would either consume or use to create yet further commodities. Put simply, Say's Law claimed that supply creates its own demand.<sup>10</sup> Later economists added the idea that the pricing mechanism would mean that, if too many commodities of a particular type were made, the price would fall or, conversely, if too few were made the price would rise. Hence, there was a self-adjusting equilibrium, which needed only to be left alone to ensure the most economically rational allocation and distribution of commodities.

Such theories, however, assumed money to be only a medium of exchange, and what really took place in the market was an exchange of commodities. People sell or produce commodities in order to buy other commodities. This was a long-held canon of economic doctrine, put forward clearly by John Stuart Mill.<sup>11</sup> As Say summed it up: 'In reality we do not buy articles of consumption with money, the circulating medium with which we pay for them. We must in the first instance have bought this money itself by the sale of our produce.'<sup>12</sup> Keynes rejected a dichotomy between money and the real economy as he attempted to solve the problem of mass unemployment.<sup>13</sup> The dangers had been highlighted by Britain's move back to the Gold Standard in the 1920s,

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<sup>10</sup>. On Say's Law, P. Mattick, *Marx and Keynes: The Limits of the Mixed Economy*, Merlin Pr., London, 1974, p. 8; Stewart, *op. cit.*, p. 44; and W. Barber, *A History of Economic Thought*, 2nd. ed., Penguin, Harmondsworth, 1970, p. 231 and *passim*.

<sup>11</sup>. 'What constitutes the means of payment for commodities is simply commodities. Each person's means of paying for the production of other people consists of those which he himself possesses. All sellers are inevitably, and by the meaning of the word, buyers. Could we suddenly double the productive powers of the country, we should double the supply of commodities in every market; but we should, by the same stroke, double the purchasing power. Everybody would bring a double demand as well as supply; everybody would be able to buy twice as much, because everyone would have twice as much to offer in exchange' J. S. Mill, quoted in J. M. Keynes, *The General Theory, op. cit.*, p. 18.

<sup>12</sup>. J. B. Say, quoted in Robinson and Eatwell, *op. cit.*, p. 24.

<sup>13</sup>. It was a problem that beset capitalist economics throughout the 1920s, particularly Britain where it fluctuated between 9 and 13 per cent between 1921 and 1929. See K. J. Hancock, 'Unemployment and the Economists in the 1920's', *Economica*, 27, November 1962, new series, p. 305.

ostensibly to stabilise currency. It had a severely deflationary effect on the economy. Conservative economists taught that such monetary stability would in time secure the necessary adjustments. To Keynes it displayed the bankruptcy of economic thought. While continued inflation could inflict harm on some, particularly those living off investments, it should be preferred to deflation, which would create 'in an impoverished world', mass unemployment. If compelled to choose, Keynes preferred to sacrifice the *rentiers* than create more misery through unemployment. *Rentiers*, were an inactive and non-productive class as they lived on their investments. Keynes supported workers in the General Strike as he saw their hardships originated with decision to reinstate the gold standard.<sup>14</sup> He thought that government policy should prevent a transfer of income from the 'active classes into the spending control of the inactive'. It was not good enough to hope that in time the economy might right itself.

In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again.<sup>15</sup>

In 1929, the UK Treasury sought to prove that increasing government expenditure to combat unemployment would be futile. Its argument, which pre-empted much of the *crowding out theory* used later against Keynesianism, asserted that the total fund of savings was static. Hence, if more money was used for home investment, foreign lending and the export surplus must suffer. Therefore the economy overall would not be better off. The velocity of monetary circulation could not be altered by government expenditure. Initially Keynes did not directly challenge such conventional dogma, as he would have later.<sup>16</sup> He argued that increased government expenditure would not create a drain on reserves, as additional credit would be used for internal purposes and not for foreign

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11 Skidelsky, *op.cit.* p285. He did think major restructuring was necessary as well. See D. Moggridge, *Maynard Keynes: an Economists Biography*, London, Routledge, 1992 p. 447

15. Keynes, *A Tract on Monetary Reform*, quoted in Lekachman, *op. cit.*, p. 55.

13 At the time Keynes did not yet have access to Richard Kahn's multiplier thesis, which would become part of the *General Theory*.

lending. Hence credit expansion for the works proposed would be safe. It was not until *The General Theory of Employment, Money and Interest* that Keynes combined support for increased government activity in the economy with a revolutionary economic theory.

In the meantime, economists became ever more desperate to explain the crisis. Mass unemployment according to some emerged because real human wants had been satiated, causing a lower demand for labour. Others blamed poor enterprise management for the depression. Old Testament moralising was even implicit in the claim it was a 'punishment' inflicted on individuals and firms for past 'sins of speculation'.<sup>17</sup>

Essential to his position was Keynes' belief that the prices of commodities were determined by their costs (wages, raw materials and depreciation) not by the volume or velocity of the circulation of money in the economy. Moreover, if wages were the main element of costs, it implied that change in money wages would bring about a corresponding change in the level of prices. If the ratio of costs to prices were to remain constant, then profitability would necessarily be static or in fact decline, due to the falling level of demand caused by wage earners having less to spend. Therefore, unemployment would either increase or remain static if wages were reduced, as many of his contemporaries recommended.

For Keynes, the depression was result of effective demand for the products of society being too weak to encourage the full utilisation of productive resources including labour. Weak effective demand came about because the psychology of the community was such that as a person's wages increased their propensity to use any increment to income on consumption of goods declined. At the time, Keynes relied mainly on intuition as he had little statistical evidence to support this claim. Later research has confirmed the

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14 E. Johnson and H. Johnson, *The Shadow of Keynes: Understanding Keynes, Cambridge and Keynesian Economics*, Blackwell, Oxford, 1978, p. 187. But such mediocre attempts aside it can not be inferred, as Harry Johnson did, that Keynesian measures only won sway because inadequate micro-economic explanations drew attention away from available macro explanations which could have produced remedies. Adequate theories are for Johnson those which concentrated on the quantity and velocity of circulation of money. Keynes' General Theory challenged the assumptions of monetarist theories as clearly as it challenged those of other neo-classical theories.

broad accuracy of his position, however, it suggests that the relationship between income and consumption is more complex than he thought.<sup>18</sup>

As employers only increased investment when order books were full or there was a reasonable cause to expect demand to increase, employment would increase only if effective demand also increased. A significant degree of unemployment could therefore occur for long periods of time. There was no self-righting mechanism that would automatically keep investment at a level sufficient to maintain full employment. The propensity of people to save any increment to their incomes exacerbated this problem. It was a shocking claim for an economic establishment that single-mindedly preached the virtue of savings and thrift.

Keynes argued, contrary to neo-classical dogma, that there was no identity between savings and investment. He criticised his contemporary monetarist opponents' argument that savings could occur without investment or alternatively investment without saving. They made the invalid assumption that any increase to an individual's savings would necessarily increase aggregate investment by an equal amount. Keynes argued that some individuals might increase their wealth, but it did not follow that there would be any necessary increase in aggregate wealth. Increases in an individual's wealth might be gained at another's expense. Moreover, because increased savings involve a weakening of consumption, any faltering of demand would lead to a falling level of investment. In a nutshell, his argument was that investment causes saving – not the converse. Keynes used his extensive knowledge of philosophy to highlight the fallacy of composition that underlay much neo-classical thought. He considered unjustified their extrapolation from individual cases to the aggregate level. To Keynes it was necessary to start with concepts of aggregate demand, savings and investment. He also regarded capitalism not so much as a system but as an undetermined entity that represented a phase in historical development. It was not a static model of economic behaviour governed by timeless

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<sup>18</sup>. Lekachman, *op. cit.*, p. 80.

equilibrium. His analysis discarded the comfortable assumption that individual wants were synonymous with the general interest.<sup>19</sup>

In addition to challenging such aspects of dogma, Keynes undermined neo-classical justifications for profit and inequality. He argued Capital yielded a return because it was scarce not because it was productive; furthermore, the use of interest payments and individuals hoarding cash kept it scarce.<sup>20</sup> Similarly, by arguing that saving is a cause of unemployment he undermined the elaborate metaphysics, his opponents used in legitimising continued income inequality as a source of accumulation. Moreover, he envisaged the capitalist economy as an undetermined system. Complete information about the past, the present, not to mention the future, was a *chimera*. Economic affairs were dominated by a lack of knowledge in which human capriciousness was more prevalent than rationality, especially in the longer term. Keynes likened the decision making process to:

a game of *Snap*, of *Old Maid*, of *Musical Chairs* - a past-time in which he is victor who says *Snap* neither too soon nor too late, who passed the *Old Maid* to his neighbour before the game is over, who secures a chair for himself when the music stops. These games can be played with zest and enjoyment, though all the players know that it is the *Old Maid* which is circulating, or that when the music stops some of the players will find themselves unseated.<sup>21</sup>

Hence, he considered it impossible to predict outcomes in investment markets. The mass psychology or herd mentality of a large number of ignorant investors could bring violent change to the valuation of stock, emanating from the 'result of a sudden fluctuation of opinion due to factors which do not really make much difference to the prospective yield'.<sup>22</sup> The state of knowledge investors had to work with was highly inadequate, even

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<sup>19.</sup> Keynes, *Essays in Persuasion*, *op. cit.*, 'the End of Laissez Faire', pp. 312-13.

<sup>20.</sup> Keynes, *General Theory*, *op. cit.*, p. 213.

<sup>21.</sup> *ibid.*, p. 156.

<sup>22.</sup> *ibid.*, p. 154.

dangerous. Thus, the basis for estimating the yield of 'a railway, a copper mine, a textile factory, the good will of a patent medicine, an Atlantic liner, a building in the city of London' in ten or even five years 'amounts to little and sometimes to nothing'.<sup>23</sup> He considered individuals who were serious in attempting to estimate such a yield were so much in the minority that their behaviour had little or no influence on the market.<sup>24</sup> For Keynes the rate of change in money wages depended largely on expectations of the future. No solid relationship between short-run market phenomena and wage changes existed, nor could wage levels be explained in terms of a lag from previous practice, as later neo-classical economists alleged. Significantly, there was no natural rate of interest yielding equilibrium between savings and investment in full employment terms.<sup>25</sup>

In summary, the Keynesian revolution attacked orthodoxy on two grounds. It replaced the mechanical concept of equilibrium with an analysis based on history. And in denying that economic decisions were based on rational choice, it stressed that such decisions were the result of guesswork or convention. The Keynesian revolution reached fruition with the publication of *The General Theory*.<sup>26</sup>

Keynes re-forged a link with classical political economy. He deprecated the efficacy of monetary policy. In the long-run he argued, expected profits, or 'the marginal efficiency of capital,' must decline.<sup>27</sup> Keynes' pessimism stemmed from his view that

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<sup>23</sup> *ibid*

<sup>24</sup> *ibid.*, pp. 149-50.

<sup>25</sup> These claims were totally alien to economists who were 'trained to treat economics as 'a geometry in the old sense, a complete and self-sufficient axiom-system for generating as many propositions as required.' G. L. S. Shackle, 'Keynes and Today's Establishment in Economic Theory: A View', *Journal of Economic Literature*, 11, June 1973, p. 517.

<sup>26</sup> As one of Keynes' most famous students, Professor E. A. G. Robinson, has remarked, if 'Maynard Keynes had died in 1925, it would have been difficult for those who know intimately the power and originality of his mind, to have convinced those who had never known him, of the full measure of Keynes' ability.' Lekachman, *op. cit.*, pp. 56-7.

<sup>27</sup> But his theory of a long-term decline in profit differed from those of his classical predecessors Marx and Ricardo. Keynes, *General Theory, op. cit.*, p. 164 and pp. 135-146. See also R.

capitalist societies could maintain equilibrium between aggregate demand and aggregate supply at considerably less than full employment. It was, in Lekachman's view, a theory of secular stagnation.<sup>28</sup>

Keynes sought to counter the depression by having the state enhance its role in directing and regulating the economy. The state needed 'to prime the pump' by increasing expenditure and thereby effective demand by ordering more goods and services. This would have a multiplier effect, which meant that as enterprises received orders for their goods they would in turn order more goods and raw materials from other enterprises, and so on, so that increased demand would flow through the economy as a whole. Thus, increased demand would lead to increased employment and in turn to a further increase in aggregate demand. The nature of the state's expenditure, therefore, was immaterial. He claimed 'pyramid building, earthquakes, even wars may serve to increase wealth, if the education of our statesmen on the principles of classical economics [Keynes' term for neo-classical economics] stands in the way of anything better'.<sup>29</sup> Nevertheless, he preferred that the state spend its money on socially useful items such as housing.

In addition the state could directly employ people. He made the semi serious suggestion that people could be employed to 'dig holes in the ground' providing that effective demand increased and excess savings were reduced. From his analysis of the marginal propensity of individuals to consume it followed that were the state to pay people money, it should go to the poor, as they would spend it. Making payments to the wealthy would not be as effective, as such people would save a greater proportion of any increment.

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Lekachman, 'The Radical Keynes'; R. Skidelsky (ed.), *The End of the Keynesian Era*, Macmillan, London, 1977, p. 60; J. Robinson, *Collected Economic Papers*, Vol. 4., Blackwell, Oxford, 1973, p. 103; and R. Lekachman, 'How Useful is Keynes Today?', R. Lekachman (ed.), *Keynes and the Classics*, Heath, Boston, 1965.

<sup>28</sup>. Lekachman, 'How Useful is Keynes Today?', *op. cit.*, p. 107.

<sup>29</sup>. Keynes, *General Theory*, *op. cit.*, p. 129.

Keynes also considered the state could use monetary policy. It should reduce interest rates and expand the supply of money, thus allowing businesses to expand to meet increased demand. Expanded fiscal activity should not be financed by increased taxation, however. If public spending were to remain fixed, taxation should be reduced. Unlike later Keynesians, Keynes was not enthusiastic about the effects of monetary policy in stimulating effective demand. Banking policy, through manipulation of interest rates, would not lead to the optimum rate of investment. Over the long term full employment would require the 'socialisation of investment'.<sup>30</sup> Private investment would only increase if businesses had the expectation of profits, or if they had no excess productive capacity, both of which depended on strong effective demand. Such would be unlikely when consumers continued to hold money and forego consumption due to low expectations of the future. Hence, state stimulation of investment continued to be the most reliable policy.<sup>31</sup>

Politically, Keynes thought that the state should function as an arbiter of the common good of society. The liberal-democratic state was not seen primarily as a coercive body whose powers should be restrained. While the state should act as an umpire, it should also provide the basic necessities for people and create the conditions in which human potentiality could be fulfilled. Hence the state should seek to maintain and extend social justice and social stability. It should encourage education and culture.

Against the moral codes of his time, he campaigned for the state provision of birth control. He argued principally this would allow women greater freedom. Similarly, divorce should be more readily attainable, especially for working women. Moreover, there should be state provided family wage so women could be paid for presently unpaid

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<sup>30</sup>. *ibid.*, p. 378.

<sup>31</sup>. D. E. Moggridge, *Keynes*, Macmillan, London, 1976, p. 127.

domestic work.<sup>32</sup> Concern for such matters went beyond a small, educated class to working women generally, he contended. Attention to these issues would mean women could be 'emancipated from the most intolerable of tyrannies'.<sup>33</sup>

Keynes and others in the Bloomsbury Group were followers of the philosopher G. E. Moore, who had published his *Principia Ethica* in 1903.<sup>34</sup> Moore proposed that Good could not be defined as such. Attempts to define it in terms of natural qualities rested on a naturalistic fallacy. Hence, attempts to identify good with pleasant or progressive or as 'willed by God' rested on a naturalistic fallacy. To Moore, the highest goods, 'those good in themselves' are 'certain states of consciousness, that could be described as the pleasures of human intercourse and the enjoyment of beautiful objects'.<sup>35</sup> As Keynes later allowed, his enthusiasm for Moore's philosophy was selective. He neglected Moore's views on conduct, where Moore maintained the classical utilitarian position that an action should be judged by its consequences, particularly for others.

Moore's philosophy gave Keynes a basis to challenge the crude consequentialism prevalent in neo classicism. <sup>36</sup> Moore encouraged Keynes to consider how life could be made more enjoyable and bearable in the present for all people, not just a chosen few. In

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32. "Birth control and the use of contraceptives, marriage laws, the treatment of sexual offences and abnormalities, the economic position of women, the economic position of the family, in all these matters the existing state of the law and of orthodoxy is still medieval - altogether out of touch with civilised opinion and civilised practice." J. M. Keynes, 'Am I a Liberal?', *Essays in Persuasion*, *op. cit.*, p. 332.

33. *ibid.*

34. Moggridge, *op. cit.*, p. 12. The following information comes from Moggridge; Skidelsky; Lekachman's *The Age of Keynes*; and Heilbroner. A discussion of Moore's contribution to Ethical Philosophy and excerpts from *Principia Ethica* can be found in J. Margolis (ed.), *Contemporary Ethical Theory: A Book of Readings*, Random House, New York, 1966.

35. Skidelsky, *op. cit.*, p. 4.

32. It was especially so for an economist who contributed greatly to public affairs and who became wealthy through private financial speculation. Its influence was considerable. It rejected the sombre Calvinist doctrine of self-discipline and of amassing great fortunes to the greater glory of God.

so doing it also become the foundation for a positive conception of liberty and an alternative to the Benthamite doctrine of utilitarianism, which informed neo-classical thinking on liberty. To Keynes' his *General Theory* had broken with both his contemporary economists and his predecessors.<sup>37</sup> But typically Keynes tried to placate opponents. He prefaced the *General Theory* with the remark:

Those who are strongly wedded to what I shall call 'the classical theory, will fluctuate, I expect, between a belief that I am quite wrong and a belief that I am saying nothing new.'<sup>38</sup>

The introduction of a dynamic concept of philosophy and the contemplation of an economy governed by uncertainty directly challenged contemporary economists. It also drew him way from classical liberalism. Hence, it was 'not a correct deduction from the *Principles of Economics* that enlightened self-interest always operates in the public interest'. He wrote of the death of *laissez-faire*.<sup>39</sup> Focussing on uncertainty meant Bentham, James Mill and J. S. Mill's utilitarianism was undermined, because utilitarianism is either a static doctrine, or assumes individuals have sufficient foresight to make rational judgements.

Such strengthened Keynes' argument for enhancing the role of the state. In its ideal form, he called for the state to set up semi-autonomous bodies within itself, whose mission would be the public good. Such bodies would mediate between the individual and the state proper. They would, in time, also enable class and group interests to be

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<sup>37.</sup> [They were] still dealing with a system in which the amount of the factors employed was given and other relevant facts were known more or less for certain. This does not mean that they were dealing with a system in which change was ruled out. But, at any given time, facts and expectations were assumed to be given in a definite and calculable form, and risks, of which, though admitted, not much notice was taken, were supposed to be capable of exact actuarial computation. The calculus of probability, though kept in the background, was supposed to be capable of reducing uncertainty to the same calculable status as that of certainty itself; just as in the Benthamite calculus of pains and pleasures or advantage and disadvantage, by which the Benthamite philosophy assumed men to be influenced in their general ethical behaviour." Quoted in Robinson and Eatwell, *op. cit.*, pp. 48-9.

<sup>34</sup> Quoted in John Eatwell "Keynesianism,' in J.Eatwell, M.Milgate & P.Newman, (eds) *The World of Economics*, London, Macmillan, 1991

<sup>39.</sup> Keynes, 'The End of Laissez-Faire' (1926), *Essays in Persuasion, op. cit.*, p. 312.

overcome. Keynes' belief in overcoming class antagonisms was a product of his industrialism and inherent corporatism. He claimed joint stock companies, on reaching a certain size, came to approximate public rather than private corporations and to become more socialist in outlook. Separating ownership and control would mean that managers would be more inclined to the social responsibility of enterprises than maximising shareholders' profit. Socialism would emerge through peaceful evolutionary means, a facet of industrialism found in other parts of Keynes' work. He tried to encourage the productive elements of society, proposing strict measures to eliminate those groups who lived off the fruits of productive labour. His policy toward the *rentiers* maintained the determination of Ricardo, Hobson and others in the industrialist and liberal traditions to bring about the 'euthanasia' of the rentier class. Congruent with his views on joint stock companies, Keynes considered the existence of *rentiers* as merely a transitional phase, which would disappear. The state would only speed up this phase by socialising investment and setting very low interest rates. Keynes felt that in exploding the justifications of inequality, of neo-classical economics and Victorian ethics, he had made a case for greater equality. But, none the less, he felt there were still psychological and social justifications for a degree of inequality in society. These justifications were related to his views on property, which will be discussed below. His other great target of attack was the law of inheritance. It reflected both his concern that wealth should be justified by merit and by productive contributions to society and his rejection of Victorian Calvinist ethics. While his aesthetic philosophy held that wealth had real advantages, which should be enjoyed, such wealth needed to be earned. Furthermore, the hereditary principle, as he called it, was a remnant of feudalism and as such would wither away. He saw it as one of the seeds of the intellectual decay so prevalent in his time.<sup>40</sup>

While Keynes objected to many aspects of capitalism, he maintained a consistent defence of the institution of private property, as the protector of individual liberty. But his

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<sup>40</sup>. "[In] the transmission of wealth and the control of business is the reason why the leadership of the Capitalist Cause is weak and stupid. It is too much dominated by third-generation men. Nothing will cause a social institution to decay with more certainty than its attachment to the hereditary principle". Keynes 'Am I a Liberal?', *op. cit.*, p. 327.

defence in his later works was really a negative one. Private ownership and monetary incentives were necessary to induce production. Moreover, he argued, dangerous forms of human behaviour could be directed into relatively harmless pursuits. If denied to human beings, 'they may find their outlet in cruelty, the reckless pursuit of personal power and authority and other forms of self-aggrandisement'. It was after all 'better that a man should tyrannise over his bank balance than over his fellow citizens'.<sup>41</sup> Hence, Keynes is best regarded as a social liberal. Although he once considered himself a liberal socialist, he did not compromise his individualism and his defence of property. His liberal-socialist society would be a community organised toward common purposes, whilst individual freedoms, to choose, to select a particular faith, to express thoughts, to engage in enterprise and to hold property, were maintained.<sup>42</sup>

It was his attachment to the values and aesthetic standards of the educated bourgeoisie, which led him to reject classical forms of socialism:

When it comes to the class struggle as such my local and personal patriotism, like those of everyone else, except certain unpleasant zealous ones are attached to my own surroundings. I can be influenced by what seems to me be Justice and good sense; but the Class war will find me on the side of the educated bourgeoisie.<sup>43</sup>

He also rejected the cultural backwardness and roughness of what he once referred to as 'the boorish proletariat'.<sup>44</sup>

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41. Keynes, *General Theory*, *op. cit.*, p. 374. See also 'Am I a Liberal?' and 'The End of Laissez Faire', *op. cit.*

42. Keynes' 1939 article in the *New Statesman*, on these matters is quoted in M. Cranston, 'Keynes: His Political Ideas and Their Influence', A. P. Thirlwall (ed.), *Keynes and Laissez Faire*, Macmillan, London, 1978.

43. Keynes, 'Am I a Liberal?', *op. cit.*, p. 324.

44. Keynes, 'A Short View of Russia' (1925), *Essays in Persuasion*, *op. cit.*, p. 300.

But in fact many of the important discoveries of the *General Theory* had been made previously by Marx.<sup>45</sup> The ideas put forward by Keynes were also discovered independently by the great Polish economist Michal Kalecki from the theories of Marx. Similarly, Soviet economists in the 1920s had developed a form of analysis that led logically to similar conclusions.<sup>46</sup> In many ways Kalecki's theories are now much more useful in developing concepts in what is known as post-Keynesian economics - developed by Keynes' successors at Cambridge University, particularly Piero Sraffa and Joan Robinson.<sup>47</sup>

Kalecki used Marx's insights into the workings of the Capitalist State and class struggle to argue Keynes' ideas on economic management would introduce new difficulties into the political system. He recognised full employment would bring a new set of problems. In place of the economic trade cycle there would be a political trade cycle.<sup>48</sup> As Joan Robinson has remarked, Kalecki's forecast was accurate in predicting

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45. See J. Robinson, 'Marx and Keynes', D. Horowitz (ed.), *Marx and Modern Economics*, Modern Reader, New York, 1968, p. 110. Keynes thought that he had destroyed Marxism with his analysis. In fact, he reproduced many of the criticisms made by Marx of classical political economy. But Keynes had read very little of Marx. In a letter to George Bernard Shaw, in 1935, he wrote that he had again attempted to read Marx and Engels. This time it was Marx and Engels' *Selected Correspondence*. Keynes preferred Engels of the two, while he deprecated their style of writing and argument. He concluded, 'I can discover nothing but out of date controversialising'. see S. Holland, 'Keynes and the Socialists', Skidelsky, (ed) *op. cit.*, p. 70.

46. J. Robinson, 'Michal Kalecki', *Collected Economic Papers*, *op. cit.*, pp. 87-91. On the Soviet economists of the 1920s, N. Spulber (ed.), *Foundations of the Soviet Strategy for Economic Growth*, Indiana Univ. Pr., 1964; and N. Jasny, *Soviet Economists of the Twenties: Names to be Remembered*, Cambridge Univ. Pr., 1972.

47. The most accessible accounts of this form of economic analysis are Robinson and Eatwell, *op. cit.* and G. C. Harcourt, 'The Theoretical and Social Significance of the Cambridge Controversies in the Theory of Capital: An Evaluation', J. Schwartz (ed.), *The Subtle Anatomy of Capitalism*, Goodyear Pub., Santa Monica, 1977, pp. 285-303.

48. M. Kalecki, 'Political Aspects of Full Employment', E. K. Hunt, and J. G. Schwartz (eds.), *A Critique of Economic Theory: Selected Readings*, Penguin, Harmondsworth, 1972, pp. 420-430. As a result of high levels of employment, trade union action could become more militant and wages would rise which, in turn, would lead to rising prices. This would lead to discomfort on the part of the *rentier* class as their income declined and they would seek alternative economic policies. As full employment meant that sackings were no longer a sanction against organised labour, employers would seek changed economic policies. Kalecki foresaw that quisling

economic policy, in the post-war period in Britain and the United States.<sup>49</sup> It has also been an apt description of Australian economic policy, until recent years.<sup>50</sup>

Kalecki's analysis recognised the impact of monopolies under capitalism on price structure. Prices were given by a mark up on costs such as wages and raw materials not supply and demand. The degree of monopoly in an industry would settle whether firms could pass on any cost increases and excess capacity usually meant a rise in demand would not feed into rising prices but increased output<sup>51</sup>. A further strength was that he re-introduced a dynamic concept of economics. He saw that conflicting interests gave rise to forms of class antagonisms, which shaped economic policy. He also raised questions about relations between a representative democratic system and a complex neo-Keynesian economy.

#### NEO KEYNESIANISM AND THE RISE OF NEO LIBERALISM

'Bastardised Keynesianism', recreates the notion of general equilibrium which Keynes had sought to destroy and restores many of the ideological and hegemonic functions of economics. The existence of equilibrium between supply and demand in conjunction with mass unemployment - the condition that Keynes sought to correct - is considered a special case, of short-term divergence from general equilibrium. Hence, for most cases conventional neo-classical doctrine can be still employed.

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economists would be found to sanction such changes. The government would then seek to balance the budget, increase interest rates and thereby create unemployment. But as unemployment was electorally unpopular, the economic strategy would again become oriented toward full employment as elections loomed. This would be achieved by the use of deficit budgets and the lifting of restrictions on credit which in turn would contribute to increasing inflation. After the election, whichever party was in government would then be faced with having to use deflationary policies to control the artificially created inflation. And thus the cycle would repeat itself.

<sup>49</sup>. J. Robinson, 'The Crisis of the Capitalist System', E. L. Wheelwright and F. J. B. Stillwell (eds.), *Readings in Political Economy*, Vol. I, A. N. Z. Book Co., Sydney, 1978, p. 40.

<sup>50</sup> R. Cately & B. Macfarlane, *Australian Capitalism in Boom and Depression*,

Neo-classicism has a primary focus on the behaviour of individuals in society. It neglects history and assumes a stationary state. Individual actions in this state are supposed to correspond to a universal and timeless rationality conforming to the strictures of utilitarianism. Neo-classical synthesisers concentrate on the process of distribution rather than production. Hence they concentrate on exchange, and exchange is governed for them by utility. Thus, the consumer is assumed to be sovereign in the economy, all of these features fit neatly into capitalist hegemonic processes.

The normal state of affairs is that markets tend towards general equilibrium<sup>52</sup> first announced by Leon Walras. It is a conception of equilibrium incommensurable with Keynes' ideas from the *General Theory*,<sup>53</sup> which stressed uncertainty and unpredictability in human relationships. Making general equilibrium theory commensurate with a dynamic or historical approach requires all people in the market to possess perfect knowledge and foresight. If human beings are fallible individuals can no longer act as utility maximising agents and utilitarian analysis breaks down.<sup>54</sup> Hence, neo Keynesians maintain a static form of analysis.

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51 M.Beresford & B.McFarlane, 'Economic Theory as Ideology: A Kaleckian Analysis of the Australian Economic Crisis,' in Clegg, Boreham and Dow, (eds) *Work and Inequality: Voll. Workers Economic Crisis and the State*, Melbourne, Macmillan, 1980, p. 217

48 The normal state of society is assumed to be one in which there can be no generalised gluts. Relying on a notion of equilibrium originating in the work of Leon Walras, the market is held to act as an auctioneer that regulates production. At any specific moment in time there is a given stock of commodities and the means of producing them. Each individual has either the capacity to work or ownership of machinery, raw materials or cultivable land. Each commodity has known production method. All people meet via the market place, and through a process of auctioneering the outputs of each commodity and their prices are arrived at. Similarly, a bargain is struck such that no person can do better individually by altering the amount of any commodity bought or changing the pattern of usage of any labour, raw material or machinery. In Walras' conception, the market for one commodity affects the markets of other commodities. The economy is supposed to reach this position of equilibrium rather like a pendulum which, while swinging backwards and forwards, is said to be approaching a position of rest. Robinson has argued that the analogy is false; the passage of history is uni-directional, from the past to the future.

53. Robinson and Eatwell, *op. cit.*, p. 48.

54 The notion of general equilibrium is, thus, based on many of the basic assumptions, which underlay classical liberalism. Not only do such theories deny history, focus on the individual and employ utilitarian analysis, but they also seek to minimise the role of the state.

As a tool of capitalist hegemony the doctrine of general equilibrium is very useful. It assumes that the normal condition of society is for the state to play as little a role in economic life as possible, because the market is part of human nature and the most efficient form of economic organisation. The theory, therefore, has a role in legitimising, capitalist hegemony. General equilibrium theory also denies the historical particularity of capitalism and hides alternative forms of economic organisation, as economic rationality is by definition best served in market capitalism. But this ideological function is a two-edged sword, since economic theorists are forced to explain the increasingly central role played by the state in the second half of this century.<sup>55</sup>

Neo classicism is more amenable to the cause of capitalist hegemony in other ways as well. While Keynes thought he had undermined the arguments of the neo-classical economists that justified inequality, neo Keynesianism has re-invoked such arguments. Such is attempted in two ways. First, it restates the neo-classical justification of interest payments. Second, it uses utilitarian arguments to justify existing inequality. The neo-classicist justification of interest, which was attacked by Keynes, stems from the work of Alfred Marshall.<sup>56</sup> For Marshall, the 'real' costs of production were human sacrifice and effort. The only surplus was rent which was essentially a gift of nature. Wages were a recompense for the dis-utility involved in working, while interest was a reward for undergoing the sacrifice of waiting while producing new means of production.<sup>57</sup> As Robinson and Eatwell have shown, this concept of interest tends to preserve existing inequalities. Interest is a reward for the wealth an individual already owns, the only 'sacrifice' being that present consumption has to be foregone.<sup>58</sup>

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<sup>55</sup> See E.K.Hunt, *History of Economic Thought*, (2<sup>nd</sup>.ed) *op.cit.* pp.417 – 423. Marshall rejected the classical economists' notion of surplus, which was based on concepts of value stemming from labour or cost of production.

<sup>57</sup>. See F. W. Paish and A. J. Culyer, *Benham's Economics, A General Introduction*, 9th ed., Pitmans, London, 1973, p. 143; and Samuelson, Hancock and Wallace, *op. cit.*, pp. 636-637.

<sup>58</sup>. Robinson and Eatwell, *op. cit.*, p. 39. A similar argument is put forward by advocates of human capital theory. This theory states that wage inequality should be maintained to reward the more highly educated members of the workforce. Education is said to involve a sacrifice of immediate earnings by the individual so that greater skills can be learnt, which will increase that person's contribution to society. The problem is very similar; it is overwhelmingly those individuals who are already wealthy or who can forego immediate earnings. For a more detailed discussion of this

For hegemonic purposes the negative view of liberty expressed by neo Keynesians, that liberty is freedom from coercion or arbitrary interference by others is more suitable than the positive notion expressed by Keynes. Neo Keynesians support the ownership of private property as being a necessary institution for the defence of individual liberty. But it also regarded as necessary to promote maximum productivity. Negative liberty is supposedly promoted and sustained by the market mechanism. The market mechanism also intrudes on the concept of democracy inherent in neo Keynesian accounts of political action, where democracy conforms to Schumpeter's market model. Democracy and freedom both become individual focussed concepts and choice becomes the main goal. The essential role of public life and the common good for democracy are subordinated to questions of choice. Such an approach is little different to the world-view of marketing managers and advertisers and has handy hegemonic application.

With such concessions to neo classicism of a pre Keynesian kind, it was not difficult for neo Keynesianism to metamorphose into neo liberalism. While Keynes had challenged the key assumptions of neo classicism, neo Keynesianism brought them back into play. In fact the main arguments used to bring about the ideological downfall of Keynesianism were directed at arguments he did not make. Ideologists have made much of the reappearance of stagflation (the coincidental occurrence of inflation and unemployment) in the 1970s as the main reason to abandon Keynes. This is said to challenge two main teachings of Keynesianism, the IS/LM models put forward by Sir John Hicks and the Phillips Curve put forward by the Australian engineer of the same name. It is a triumph of hegemonic invention that both were claimed to be synonymous with Keynes' work, as he had rejected them both.<sup>59</sup>

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theory, M. J. Carter, 'To Abstain or Not to Abstain (Is That the Question)?', in Schwartz, *op.cit.* pp. 36-49.

The Keynesian revolution was only ever a partial revolution, not because Keynes' ideas were not revolutionary but because his ideas were absorbed into neo classical economics and effectively bastardised. He was unable to stop what Gramsci called the *transformismo* (or the process of cooptation) of his work. The Dutch Sociologist Wim Wertheim introduced the idea of 'counterpoint' values to cover the 'intangible' socialisation processes which regulate the counter norms, which are part of a society that thrives on disorder and dissidence. Wertheim pointed to the Catholic Church teaching that all people are equal yet it is one of the most hierarchical and rigid institutions in the world. As Bill Brugger pointed out universities are also extremely hierarchical yet the principles they espouse values including academic freedom and freedom of inquiry that if taken literally could be used to overthrow them. Keynes was unable to create any protective belts that could shield his theories from counterpoint s. In Gramsci's terms it failed the test of becoming common sense.

To the extent that this prevailing consciousness is internalized by the broad masses, it becomes part of 'common sense': as all ruling elites seek to perpetuate their power, wealth, and status, they necessarily attempt to popularize their own philosophy, culture, morality, etc. and render them unchallengeable, part of the natural order of things.<sup>60</sup>

The concepts Keynes rejected were much more amenable to becoming 'common sense' and being viewed as 'natural.' Concepts such as negative freedom, individual choice and the market are more saleable than 'aggregates', 'marginal propensities,' 'complex causality' and Mandeville's paradox of private virtue becoming public vice. Keynes' opponents had a comforting story to tell he did not.

## CONCLUSION

In part the failure of his position to become fully hegemonic lay in Keynes' own approach to his work. He smashed orthodoxy without realising what in fact he was doing. He challenged convention on the relationships between savings and investment, the role of equilibrium, Say's Law and the place of uncertainty and irrationality. He rejected the

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C. Boggs *Gramsci's Marxism*, London, Pluto Press, 1976 p.39. See also A. Davidson, *Antonio Gramsci: The Man, His Ideas*, Australian Left Review Publication, 1968, p.47.

orthodox liberal canon of state neutrality and advocated a kind of reformist liberal corporatism.

For Keynes the state had to intervene by using savings, investment and social policies to prevent the conditions that generated class conflict, poverty and war between nations from becoming ascendant. He advocated a managerial role for the capitalist state and a kind of associationalism or pluralism to prevent the individual being squashed by the state. Politics should be directed to achieving the common good and aesthetic ideals. He saw greater levels of equality and social advancement as a precondition for liberty. Nonetheless, he defended capitalist property, the market and liberal individualism, while at the same time attacking *laissez faire*, the hereditary principle and much contemporary liberal moralism. He rejected the old morality of thrift, parsimony and Victorian sexual morality to a degree that shocked many of his contemporaries. He saw this approach as something that could be part of the norm. He was, however, taking the supposed acceptance of the counter norms in capitalist hegemony literally, assuming freedom meant freedom and capitalism necessarily wants to hear a systematic account of its failings.