

Comments on an Interview with Steve Keen

[On Sept. 15, 2010, a friend of mine, Kevin, sent me a link to a video of an interview with Steve Keen, the Australian economist, and asked for my comments. Here's his letter and my response. The full program that contains this interview as a part is available at: http://www.youtube.com/watch?v=0BaDbK9jFts&feature=player_embedded –Scott H.]

----- Original Message -----

From: Kevin ...

Sent: Wednesday, September 15, 2010 12:20:14 PM

Subject: Your Thoughts?

Hi Scott, I came across this interview of Steve Keen (*Debunking Economics*) today. What do you think? Is he right?

[The Last Thing Government Will Do](#)

Kevin

September 15, 2010

Hi Kevin,

Thanks for sending the link to this interview. Steve Keen, of course, is a “post-Keynesian” economist, which is to say still a bourgeois economist in the Keynesian tradition. Some of what Keen says is certainly correct, and some of the nostrums he recommends (such as mandating wage increases) would in fact help the situation (assuming there is some way to actually apply them under this system, which is far from obvious).

However, while he has a better grasp on the situation than most bourgeois economists, he still doesn't really understand capitalism well enough to see that overproduction crises are inevitable and that the only measures the government could possibly implement right now would at best only improve things to a degree and for a short while.

It is definitely true that there is a continuing *contraction* of [private] debt right now, as Keen notes. And it is the steady *expansion* of debt that allows capitalism to function in the first place.

Even if there were no further contraction of debt, capitalism would remain in crisis. (This is because the working class is not paid for the full value of the commodities it produces for the capitalists and can therefore only buy back all that it produces if it is granted ever expanding credit.)

Thus when credit is no longer *expanding*, and—worse yet—when it is actually *contracting*, the crisis will be seriously intensifying overall.

This will be the case even if some aspects of the economy seem to be doing better for a while (such as a small rise in GDP compared to last year, or the current quite large corporate profits). In the Great Depression too, the big corporations (though not small businesses) were still making substantial profits even as the U.S. economy crashed downward from 1929 to 1933. We have to look at the overall picture, not just one aspect of it like the business press tends to do.

Keen says that the solution to the crisis is just to write off all the excess debt (that will never be paid anyway). It is not clear if he is talking about just debt to banks or all debt. Either way, 1) this is not going to happen; 2) if it is attempted there will be a vastly worse international financial crisis that will make what has happened so far seem trivial; and 3) it won't really resolve the crisis anyway.

It won't happen because this is a class society, and the government exists to serve the interests of the rich (and especially the banks and financial bourgeoisie). And of course it is not in their interests to have all the money owed them simply “canceled”, even if they did use fraudulent tricks to create this debt in the first place.

While it won't be purposefully attempted, the failure to pay at least a large chunk of this debt will eventually happen anyway. But since a very large share of U.S. debt is actually owed to other countries (especially China, Japan, Britain and Germany), the failure to pay even part of that will sooner or later lead to the collapse of the dollar, hyperinflation in the U.S., and a really qualitative worsening of the overall crisis into genuine depression.

The reason why even the total elimination of all debt in the entire world would not end the crisis is that there would still exist a tremendous excess of productive capital (relative to the current market demand). During capitalist booms and good times, tremendous artificial markets are created through the expansion of all kinds of debt (but especially consumer and government debt). This leads to the building of large numbers of new factories, and expansion of all other forms of production to a huge extent. When the crisis breaks out in full force there are all these factories, mines and farms which suddenly have no markets. Even if all debt is canceled, there is still no market for all these commodities. And therefore there is still no good reason to build *new* factories, buy new machinery, open new mines, expand agricultural production, and so forth.

Thus the simple cancellation of debt (even if can somehow happen, despite capitalist laws) cannot resolve a major capitalist overproduction crisis such as we are in today.

Keen alludes to the mechanism of major inflation as a means of wiping out debt. This is actually a method that is open to governments (and is not “illegal”, though it should be!). But while massive inflation can wipe out debts, it also cannot resolve the crisis, and for the same reason: the “overhang” of the massive excess of productive capital still remains.

The basic problem is that capitalism is based on the economic exploitation of workers, or in other words,

that the capitalists do not (and cannot) pay their workers for all that they produce for them. This is the secret of [surplus value](#) that Marx explained for the first time. The process can indeed be kept going—even for decades at a time—by constantly expanding credit to those who cannot otherwise afford to buy all that is being produced, as well as by the capitalists themselves using a large part of the surplus value to build more and more factories.

But eventually the whole process collapses into a major overproduction crisis. Since it is the overproduction of *capital* which is the fundamental problem, *only the destruction of this surplus capital* can really resolve the crisis, and reset the system for another major cycle.

But it took World War II to bring about sufficient destruction to reset the capitalist system last time around. No war of comparable destructive power is on the horizon at the present time (fortunately!), and with modern technology (including nuclear weapons) it would likely mean the end of humanity if it does occur.

Therefore this crisis is going to last for decades, and overall continue to get worse and worse. Only entirely getting rid of capitalism provides a way out for humanity. And at present, humanity does not understand this. Even Steve Keen doesn't really understand this.

Scott