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My career as economist and the role of Kalecki

My professional life consists of two distinct periods and the border line between them is linked with the definitive return of the Kaleckis to Poland in 1955. Before being confronted with his teaching I was a rather dogmatic Marxist, much more a priest of the ‘new religion’ than a scientist. Only after having met Kalecki I have become increasingly more a critical and professional economist. The privilege to work with him was a great chance offered by destiny which otherwise was not very kind to me.

‘Karl Marx Economic Teaching’ by Karl Kautsky was my first confrontation with political economy. This book opened my eyes not only for the history of mankind and its present complexities, but for its predetermined future as well. The study of the first volume of Marx’s ‘Capital’ did not produce the same emotions. The distinction between the value of labour force as a commodity and its alleged exclusive ability to produce value added seemed quite convincing as a tool to disclose the nature of capitalist exploitation, but rather quickly I got lost in the German philosophy inclination to distinguishing between the form and the essence of exchange values. It is rather strange that the discussions on Marxian economics in the past decades have been dominated by the labour theory of value, and especially by the so called transformation problem (from labour values into prices of production) until Sraffa (1963) proved that the transformation in a form proposed by Marx is not a scientific question at all. The scheme of reproduction presented by Marx in the second volume of ‘Capital’ has

impressed me much more than his labour theory of value. This scheme, with the circular flows of production and incomes in the background, brought Marx very close to what about seventy year later became known as the theory of effective demand. However Marx got involved in the speculation about the rising organic composition of capital (what he had really meant – as rightly pointed out by Steindl [1962] – was rather the capital/labour and capital/output respective ratios), and the resulting long run fall of the profit rate, which made many of his followers attempt in vain to calculate the date at which the whole system would break down.

In the early 1950s the Communist Party established in Warsaw the Institute of Social Sciences, a hotbed for training Marxist teachers in the Polish universities which with time became in fact a hotbed for revisionists, but this is another story. I was admitted to the Institute as a postgraduate student and could devote all my time to research and reading, mostly of the ‘Holy Scriptures’. After finishing my doctoral thesis I continued work at the Institute and, simultaneously, at the Central School of Planning and Statistics (SGPiS). where I have been an assistant already since 1949 and, after defending my doctoral thesis I quickly got a position of assistant professor, and then of a professor. The tight ideological limitations made my work more and more difficult. The other source of my disappointment was the growing dissonance between the official ideology and the praxis of ‘real socialism’. The thaw after Stalin’s death was well underway and the social revolt in Poznan, and then in Hungary, were approaching. I was ripe to leave the line of stout believers, as were many of my colleagues and especially our influential teacher Włodzimierz Brus. It was his initiative to invite Michal Kalecki, who has just returned for good to Poland, to give in November 1955 two lectures on “The impact of militarization on the business cycle after the Second World War” (Kalecki 1955). I knew his name from reading, but since in the Manichaeic world of finely drawn divisions between Marxian and bourgeois economics he was not considered a Marxist, I classified him accordingly and was rather sceptical towards the expected benefits of his lectures.

It is difficult to describe the first impression Kalecki’s lecture made upon me. I saw in front of me a man of a rather small stature, who spoke in a loud voice, but intellectually a kind of sorcerer who played with the familiar schemes of reproduction but used them for asking the most important and pertinent economic questions to arrive at conclusions that were completely opposed to the canons of the ‘Marxian faith’. One of them was that inflation was

bad, especially for workers, and a balanced budget was good. This was exemplified by his analysis of the effects of militarization, which according to the ruling ideology at the time was the main determinant of the successful development of capitalist countries. Kalecki did not deny at all the expansive role of militarization expenditures but showed that their consequences for the capitalist economy depended on the method of their financing. The balanced budget per se - he argued - was neither good nor bad for the economy because the final result depended much on how this balance is brought about. If militarization expenditures were fully financed by taxes paid by workers alone, then more cannons and less butter would be produced without any change in total output and employment. If, however, the increase in armament expenditures was financed solely by increased profit taxation, profit after taxation would not change while total output and employment would increase. In that case not only more cannons but also more butter would be produced. However, such a policy would hardly be politically acceptable. Finally, in case increased armament expenditures were financed by deficit spending (which - except under hyperinflation - would not give rise to inflationary pressure), not only total output and employment would increase, but also total profits, which would, in turn, in due time lead to an increase in investment and capitalist consumption, and thus to further economic expansion.

I was amazed. Kalecki's logic was flawless, but it must not be true what should not be true (*es darf nicht wahr sein was nicht wahr sein darf*). I looked for the trick and believed for a while to have found it. Kalecki slightly redefined the notion of two departments by assuming that they are vertically integrated, each of them producing only final goods, while in Marx's schemes of reproduction the first sector produces not only final goods but also intermediary goods for both sectors. However I realised very quickly that my criticism was childish. The small change introduced by Kalecki clarified immensely the meaning of Marx's schemes of reproduction and put in the centre of analysis the relation between investment goods (produced by Department 1) and consumption goods (produced by Department 2), i.e. the relation which became -the corner stone of Kalecki's theory of effective demand in the early 1930ths.

My next meeting with Kalecki was in 1956, at the Second Congress of the Polish Economists Society. He gave a presentation of his 'Dynamics of Investment and National Income in a Socialist Economy' (Kalecki 1956). His paper rejected the so-called law of faster development of Department 1 compared to that of Department 2 as a condition for sustainable

growth. He argued that requiring the producer goods department permanently to grow at a higher rate was tantamount to requiring a permanently higher growth rate of investment goods than of consumer goods, thus a continuous increase of the investment/income ratio, to the detriment of the consumption/income ratio.

It may seem strange why this rather obvious conclusion attracted great and lasting attention, not only mine but of all his audience, ever since Kalecki's first presentation in 1956. However, in that year, the year of Khrushchev's denunciation of Stalin's crimes, Kalecki had the courage to reject the old dogmas not only with respect to capitalist economies, but to socialist economies as well. The most important message of Kalecki's presentation was not his dismissal of a false policy prescription, but his method of analysing economic problems. He demonstrated that in economics (as in other fields of research) consistent conclusions must be drawn from clearly formulated assumptions, with no room for arguments drawn from 'Holy Scriptures'. For me - and also for many others - this was the main message and the guide-post for the future. I have found my guru.

Kalecki's main job after return to Poland was related to his advisory work in the Central Planning Commission. As he became more and more disappointed with these activities I tried to convince him that he should move to teaching and share his knowledge with students. It was not at all easy to persuade him, considering that he had never had a teaching position in the academia, but at last I got him agree to give a one term course (of two hours a week) in the Central School of Planning and Statistics (SGPiS) on his theory of dynamics of a capitalist economy, and another course on his *in statu nascendi* theory of growth of a socialist economy. I felt very happy until only a few days later Kalecki told me he could not accept my proposal because he had not enough material to lecture for two hours a week. It must be noted in this context that Kalecki almost never referred to other authors and their theories; he presented only results of his own research. I proposed he lectured only one hour and the second one would be devoted to questions and answers and this he accepted.

At the SGPiS next to teaching Kalecki got involved in intense research. His practical experience in the Planning Commission and the stylized facts elaborated there were the basis for his theory of growth in a socialist economy. His advisory work was inseparable from his theorizing; on the one hand practical problems with which he was confronted led him to theoretical generalizations, and on the other hand his theory was the point of departure for his

expert advise. From the very beginning of Kalecki's work in SGPiS I have always closely collaborated with him. I can say that his theory of growth of a socialist economy came into being in front of my eyes, we discussed step by step every chapter of his book and sometimes I was able to suggest some improvements. I tried as much as possible to disseminate the ideas of Kalecki's growth theory and especially in including them into academic curriculum of Polish universities. I also have been able to study in depth his theory of effective demand in a capitalist economy and get when needed additional explanations directly from him.

When in 1968 the group of Kalecki's students and collaborators became an object of rough and politically motivated attacks and I lost my professorship in SGPiS, the time has come to decide what to do next. Kalecki's opinion that Poland was no more a place to pursue economics seriously helped me to make up my mind. At the age of late 40ties, not ready after my war experiences to tolerate a new wave of anti-Semitism (also if disguised as a fight against Zionism) I decided to leave with my family Poland for good. Although almost penniless, in my pocket I had a very positive letter of recommendation from Kalecki to 'Whom it may concern', and even more importantly a full-load in my head of his theories. Familiarity with Kalecki's theory was the invaluable capital that even the most malicious custom officers could not prevent to take with me abroad.

My first stop was in Vienna where I had to spend a few weeks, mainly waiting for an immigration visa to Canada where I was offered a professorship in economics. When I refused the Canadian consulate officer in Vienna to accept his well-disposed suggestion that I declared to had been forced to become a member of the Communist Party (which in fact I left in March 1968 in protest against its anti-Semitic drive), because otherwise I could not pursue my university career in Poland, my future as a potential Canadian immigrant was decided. Andreas Papandreou, the later prime minister of Greece, who at that time was still the Dean of the Faculty of Economics at the York University in Toronto, started a petition campaign signed by a great number of Canadian economists but to no avail. Required by the petition to explain his decision to the parliament, the Minister of Internal Affairs declared that I was a danger for the Canadian security. Most probably this danger would be much less if my behaviour were more opportunistic.

My stop in Vienna was provisional. But *rien ne dure plus que le provisoire*, and my stay in Austria lasts already almost 38 years. With the help of Josef Steindl, the close collaborator of

Kalecki in Oxford during the second world war, and Franz Nemschak, almost immediately I got a job at the WIFO (Austrian Institute for Economic Research), in the new, just organized Department for Comparative Economic Studies. I wanted, however, to continue my university career and already in 1971 I was confronted with a difficult choice between a professorship at the University of Linz and the University Catholique de Louvain. Louvain was a much older University, my French was at that time much better than my German. Indeed I have spent the whole academic year 1966/1967 as a visiting professor in the Haute Ecole des Sciences Sociales in Paris. I did not know the University of Linz, was never before in this town but I could not wipe out from my memory the names of some Linz inhabitants who became horrifying ghosts of my personal history: Ernst Kaltenbrunner, Adolf Eichmann and the worst Franz Stengl, the commandant of the Death Camp in Treblinka where all my family was gassed. On the other hand my children continued already their education in German, and my wife was quite fluent in German but knew no French. I had already made some friends some of who I first met in 1962 when I was for two months a visiting professor at the Institute for Higher Education in Vienna. Moreover, the hospitality that I personally and my family enjoyed since the moment of our arrival to Austria did play an important role. I decided to choose the University of Linz.

Together with Kurt Rothschild we offered at the Linz University, to about 20 generations of students, not only a critical review of mainstream economics but also a radical theoretical alternative in the form of Kalecki's theory. I have made it my duty to pass on Kalecki's teaching to others, and looking back I have the feeling that my effort was not fruitless.

Another task was to develop Kalecki's theory and adjust it to new economic environment. Among my published papers I would like to select two directions in which I believe to have made some progress.. Keynes's teaching was absorbed by mainstream economics and emasculated (contrary to Kalecki's, which was simply ignored) . The spectacular result of this operation was i.a. the aggregate demand versus aggregate supply analysis whereby the macroeconomic equilibrium is achieved similarly to that in a market for an individual good, by the right price adjustment. Together with Amit Bhaduri and Martin Riese (Bhaduri et al.1999) we proved that the whole construction suffers from basic inconsistency. It did not change academic teaching in any way; there exists almost no macroeconomic textbook that does not repeat the evident mistake demonstrated by us. At the seminar devoted to the centenary of Kaleckis birthday (1999) I presented a paper "Three ways to ... unemployment"

(Laski 2004) in which I argued that in majority of countries practical economic policy making does not only disregard Kalecki's proposals for full employment but that it simply contradicts his advice. In that paper I disclosed that the propensity to save started to play an important role that has not been known previously. In some countries (e.g., in USA) the decline of the savings rate gave a push to consumption growth in the late 1990s which in turn led to an increase in investment and accelerated growth of GDP. In some other countries (e.g., Germany) the increase of the savings rate limited the consumption growth and was conducive under low propensity to invest to slowing down of the GDP growth and increasing unemployment.

After retirement from Linz I was offered the position of the Research Director in the Vienna Institute for International Economic Studies (WIIW) which I enjoyed in 1991-1996. This was the time when the communist system broke down and the world was confronted with a completely new problem: how to go back from a centrally planned to a market economy. Somebody said the task was now how to transform scrambled eggs back into eggs. International organizations had a ready made and uniform answer for all transformation countries in the form of the Washington consensus. We at the WIIW tried – though, without much success – to prevent the approaching disaster in the form of a prolonged recession .

At the very beginning of the shock therapy in Poland I had the privilege to be invited to prepare an experts' report of the expected results of this policy package. I came to the conclusion that GDP would fall over 1990 by 15 to 20 percent instead of tacitly assumed (although not published) decline of about 5 percent (Laski 1990). In 1990 GDP fell by 11,6 percent and 1991 by another 7 percent. As far as I know there was no other economist to foresee this development. This was not the result of any personal prophetic ability; I had simply used the method of Kalecki and tried to calculate the results of the decline of effective demand. My expertise was of course completely ignored and shelved.

Many students and even close collaborators of Kalecki in Poland experienced at about that time a kind of new 'illumination'. They moved directly from the thesis that the market cannot spontaneously adjust the propensity to invest to the propensity to save to the opposite thesis that the invisible hand of the market solves all problems if one is only ready to accept its functioning, and first of all if the state does not interfere with this miraculous mechanism. The proponents of socialism with a humane face transformed themselves overnight into passionate

free traders. I have become a witness of a real development which Joan Robinson invented only in her imagination. She wrote once that the border between ideology and science in economics is not sharp determined. Imagine, she continued, that somebody changes his political opinions and at the same time his whole economics. This proves that his economic views contained nothing but ideology. If, however, somebody changes his political opinions but sticks to at least part of his economics, this part is - at least subjectively – science, not ideology. Some people need faith. They can replace the belief in Marx and Kalecki by one in Smith and Friedman, but they cannot get rid of some faith.

A number of my former Linz students and collaborators, presently occupying important positions in higher education and government administration, defy mainstream economy and act in the direction of a more efficient and egalitarian society. I feel I have contributed to this as I have also some modest share in the international reputation WIIW has gained over the years. In this way I may have paid back my debt to my host country and contributed at the same time to preserve the intellectual heritage of Kalecki.

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