

Josef Steindl: An Economist of His Times

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Steindl (1984) once said that “economic policy is the main inspiration of economic theory.” He was referring to the work of Kalecki and Keynes, counterposing its policy orientation to the “sterility” of the modern neoclassical school, but what he said about their work applies equally to his own. Steindl also lived very much in his times, taking his problems from them and advancing his analysis through an in-depth consideration of them.

Like Kalecki and Keynes, Steindl lived through the depression years of the 1930s, though he was considerably younger than they were at the time of that economic crisis. He witnessed the revival of growth in the post-war years and the end of that growth era in the 1970s, when the growth problems of capitalist economies again appeared, in the new form of ‘stagflation’. His life spanned the major economic developments of the 20th century, and his work encompassed and illuminated all of them, with his *magnum opus*, *Maturity and Stagnation in American Capitalism*, a seminal account of the Great Depression.

Steindl was born in Vienna, on April 14, 1912, and lived there for much of his life. He received his academic training in economics in Vienna (at what is now the Economic University) and his first position in the field, at the Austrian Institute for Economic Research. He obtained this position upon completion of his doctorate in 1935, and held it until the German annexation of Austria, when he and other like-minded intellectuals lost their jobs due to their hostility to the Nazi regime. In 1938 he emigrated to England, where he worked, first, as a lecturer at Balliol College, Oxford (1938-41), and then as a researcher at the Oxford University Institute of Statistics (1941-1950). Upon his return to Vienna in 1950, he resumed his position at the Austrian Institute for Economic Research, and except for the year spent as a visiting professor at Stanford

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University (1974-75), he remained there, working at the Institute until his retirement in 1978 and continuing his association with it until his death in 1993. The Institute held a celebratory conference on his work in 1992, while the 1987 session of the Trieste International Summer School was organized around its major themes.¹

Steindl's university days (the early 1930s) were a time of great economic hardship and political upheaval. The ideas dominant at the university were the anti-rationalist, nationalist ones connected to the developing Fascist movements. These ideas, and especially the militarism they supported, were repugnant to Steindl, and while his upbringing had been apolitical, he "could not fail to be impressed" by the "unemployment and misery" that surrounded him.² Unemployment continued to be a "very important concern" of his, and, indeed, judging from his life's work, the central one.

The Austrian school of economics, which was then centred in Vienna, provided a counter to the reactionary intellectual currents of the day. Steindl embraced its liberal views, learning them at the hands of Richard Strigl, a professor at the university and pupil of one of the Austrian school's founders, Böhm-Bawerk. While Steindl's acceptance of the school's doctrines was short-lived – he soon "came under the influence of Keynes"³ – the school and its members played an important role in his life. The Austrian Institute for Economic Research, where he was first employed and worked for most of his life, was a creation of the school (Ludwig von Mises was the Institute's founder). A member of the school and associate of the Institute, Gerhard Tintner, introduced Steindl to the work of Keynes, and it was the support of von Mises, Haberler, Hayek and others of the school which secured Steindl his 1938 post at

¹ As Jan Kregel (1993) recounts in his personal reminiscences, Steindl was one of the most important contributors to the Summer School, producing each year at least one, if not two, lectures for its program, while the session organized around his work was, as Kregel puts it, "probably the most successful in the short history of the Trieste experience."

² This is reported in Steindl (1990). Other personal reminiscences can be found in Steindl (1984).

³ Steindl (1990), p. 97.

Balliol College. Without their help, his emigration to England would not have been possible.

The years spent in England were critical to Steindl's career. It was there that he developed his approach to economics, the 'vision' – as Schumpeter called it – that underlay all of his work in the field. That conception is a unique blend of Marx and Keynes – Keynesian in content, but Marxian in outlook. The approach is historical and the analysis dynamic, and while the historical perspective was the result of Marx's influence, the Keynesian framework was the result of Kalecki's, who was at the Oxford Institute of Statistics when Steindl joined it and worked there with him until 1944. Kalecki was the most important influence in Steindl's life; he inspired his work and was, as Steindl (1984) put it, his "reference system." As an economist, he was "the product of England and Kalecki" (Steindl, 1990, p. 98).

1. Small and Big Business

During his first years at the institute in Oxford, Steindl worked on the problems of the firm: its profitability, growth, and the competition that constrained them. This interest in the firm stemmed from its importance in the accumulation process, which for Steindl, as for Marx, Keynes, and Kalecki, was the driving force of the capitalist economy.⁴ Growth and development depended on investment, and full employment would not be possible in its absence. Investment determined the effective demand for products as well as the facilities available for their production, deciding the amount produced along with the level of employment, and it was the firm that decided the investment. Indeed, that investment was, for Steindl, the central concern of the firm; firms were as interested in accumulation, and as aggressively expansive, as the 'capitals' of Classical economics.

Steindl was especially interested in the relation between firm size and profits, and in *Small and Big Business* (1945), he investigated the problem of the large firm's dominance and related question of the small

⁴ This is emphasized in Kurt Rothschild's (1994) account of Steindl's life and work.

firm's survival. Industry was highly concentrated; there was little evidence of the economists' 'perfect competition' or of Marshall's 'upward movement' of small entrepreneurs into the ranks of the large ones. Clearly the large-sized firm had important competitive advantages, and Steindl wanted to know what the source of these advantages was and how, in the face of them, could small firms coexist with the large ones (which they did, in fact, do).

The investigation began with the cost factors that favoured the large enterprise, the plant- and firm-level economies of scale. While these economies were not ubiquitous, they were significant, for machinery, as Marx emphasized, was the basis of modern industry,⁵ and the improvement of processes and products required large investments in research and development. Only the large concern could afford these investments, and since it could also afford any innovation open to the small firm, whereas the small one could not realize the innovations (and plant sizes) open to the large one, the large firm was "technically superior" and would, as a rule, have lower costs than the small concern (Steindl, 1945, p. 17).

Of course the cost advantages of large size would not necessarily bring higher ("abnormal") profits. Competition could keep down the profits of large firms, as was traditionally assumed; but in the case of the large firm there would not be much competition, as neither enterprise formation nor firm growth would produce many large-size concerns. Firm growth would not produce many because of the financial fragility of the small enterprise, whose contingency reserves were slim and capital too little to secure much funds or obtain them on favourable terms. And the capital restrictions on borrowings that impeded the growth of a small firm would also impede the founding of a large one. Only the wealthy could start up a large concern.

⁵ Machinery generated scale economies for the same reason that the division of labor did: because "specialized units must be used to capacity to be fully effective" (Steindl, 1945, p. 14). Other sources of scale economies noted in Steindl's discussion were "bulk transactions" – important in the case of purchasing and distribution – and "massed reserves" (such as spare materials, parts, or cash held in reserve for contingency purposes like equipment breakdowns or customer defaults).

Large capitals were “scarce,” and it was because they were scarce that the lower costs of large-scale production brought extraordinary profits. The higher profit of the large firm was a “differential rent,” and its dominance not the result of the technology alone, but of the technology in conjunction with the economic conditions under which the firm operated. For while it was the economies of large scale that gave the large firm its cost advantage, it was the inequities of wealth distribution that made the capital needed for its operation scarce.⁶

The profits of capital were explained in the same way as the rents on land – by the limitations on its supply. They were the consequence, as Steindl put it, of “the lack of free entry which is ubiquitous and essential in capitalism in so far as you need wealth in order to set up in business,” and “the opportunities of exploiting the advantages of large-scale operation” were reserved “for those with large wealth, which is scarce” (Steindl, 1990, p. 98). Capital was needed for capitalist production, and profits the result not of the imperfections of labour markets, but of the capital requirements that limited the competition of industries and entry into markets.⁷

Market imperfections were also important in the explanation of the small firm’s survival, though, in this case, conditions in the labour market as well as in the product market played a role. Labor market segmentation gave the small firm the opportunity of drawing on a cheap labour supply (the unorganized segment), as did the geographical restrictions on labour mobility (the labour in small towns and undeveloped regions was cheaper than that in large urban and industrialized areas), while product differentiation protected the small firm’s sales from the price competition of lower-cost producers. Because the small firm had its loyal clientele (‘goodwill’), its market could not be invaded without a special sales effort, and in many cases the revenue that could be gained through that effort was not worth the cost (the price reductions or advertising

⁶ The importance of wealth distribution in enterprise profits is discussed further in Steindl’s (1945b) “Capitalist Enterprise and Risk.”

⁷ Keynes (1936) also explained the profits of capital in terms of its scarcity, but, for him, that scarcity was the result of the insufficiency of its amount (relative to its uses), whereas for Steindl it was the result of its distribution along with the capital limitations on borrowings.

expenditures). The other important factor in the small firm's survival was the exaltation of the entrepreneur, the value given to being one's own boss, which kept up the supply of small entrepreneurs and led them to hold on to their businesses in spite of the often negligible profit and odds against success (Steindl, 1945, pp. 59-62).^{8,9}

As Steindl notes in his later writings,¹⁰ the scale economies highlighted in *Small and Big Business* diminished in importance in the post-war era as the human factor became more important in industry, and technological developments in electronics made machines more flexible. Yet, these new high tech industries have scale economies of their own, resulting not so much from the capital requirements of production processes – though these are quite high in the case of some, such as computer chips and transmission systems – but from the costs of product development. These costs give the larger and more established firms considerable competitive advantage, affecting the structure and evolution of the new high tech industries as much as the economies of large scale production affected that of the older 'smoke stack' and mass production industries (steel, chemicals, motor vehicles).

In the information technology and other information goods industries, the development of the product – new computer software for music recording, movie editing, etc. – is its production. Most of the costs are incurred in advance, sunk in the product's development, the costs of producing (and in the case of the digital products, also distributing) additional units of the product being minimal. The cost structure of these industries makes their profits critically dependent on sales, so that while there is no minimum efficient scale of production, there is a minimally profitable level of sales, and the higher the cost of product development, the greater that minimally profitable level is.

⁸ Apart from these social advantages, small businesses also provide employment to family members as well as their founders, so that their formation, Steindl suggests, will vary with the state of employment.

⁹ Steindl returns to this issue of the small firm's survival in his *Random Processes and the Growth of Firms* (1965).

¹⁰ See, in particular, his 1985 article on "Structural Problems in the Crisis."

As the costs of information goods are mostly fixed, increases in sales reduce unit costs, increasing profits and thus the funds available for product promotion and/or improvement. Greater sales result in lower costs, and lower costs in greater sales; when demand for the product depends on the number of its users, because the product is used to communicate with, or transmit information to, others, increases in sales not only lower costs, but also increase sales. The ‘network externalities’ typical of information goods makes sales the critical determinant of sales. Success in these information industries literally breeds success, just as failure results in ruin. Any tipping of the market towards one or another firm in the industry gives it a decisive competitive advantage over the others, and while there might be much competition in these industries in the early stages of their development, they all become, sooner or later, ‘near monopolies’ (such as Microsoft in computer operating systems, Google in search engines, and Cisco in switching systems).

Firm size is still a critical determinant of competitiveness, and innovation today depends as much on the availability of capital as it did in the time of the publication of Steindl’s *Small and Big Business*. Indeed, the capital requirements of innovation today are, if anything, even greater. This is certainly true in the case of industries – such as pharmaceuticals – where large-scale research and development is needed for success, as well as those, like aircraft manufacture, which require the knowledge and application of many different sciences. Product development costs have greatly limited the competition in these industries – pharmaceuticals is an oligopoly and aircraft manufacture a duopoly – and, while many of the innovations of the biotech and information technology industries were developed by newly formed, small concerns, these ‘start-ups’ required capital too. Venture capital was critical to their success (Lazonick, 2011 and 2007).

2. Maturity and Stagnation

The analysis of *Small and Big Business* provided the micro-foundations of Steindl’s *Maturity and Stagnation in American Capitalism*

(1952). This work, also done at the Institute in Oxford, was the result of a research project on the Great Depression that had been undertaken at Kalecki's suggestion.

Mainstream economists had difficulty explaining the world depression of the 1930s. Unemployment was hardly 'optimal' – it left scarce resources idle – and the unemployment of the period was massive: a quarter of the labour force in the case of the American economy and a greater proportion in that of Germany (32 per cent in 1932). So many could not have been unemployed 'voluntarily,' nor could their unemployment been 'frictional' – it lasted too long for that. That unemployment was anomalous – the conventional wisdom could not account for it – and the mainstream economists soon forgot it, attributing its occurrence to an accident of circumstance.¹¹

Kalecki's and Steindl's view of the Depression was quite different; for them it was not "a mere aberration of history," but a symptom of the basic difficulties of the capitalist system (Steindl, 1990). The "crisis of existence" that Marx forecasted had occurred – the capitalist 'engine' had ceased to function. Yet, it was not clear why the machinery malfunctioned, and where "exactly the trouble lay," and it was this that Steindl set out to discover in the work that culminated in *Maturity and Stagnation*.

Steindl found the roots of the crisis in a long-term development: oligopoly. When the output of an industry became concentrated in the hands of a few large firms, competition fell off, and when competition declined, so did investment. It was the spread of oligopoly that had brought on the stagnation, with this development explaining both the protracted nature of the Depression and the secular decline in accumulation that preceded it (the rate of accumulation started falling in the 1880s), and since the concentration of industry was a slow process, occurring in stages rather than all at once, the stagnation developed

¹¹ The most recent version of this 'accident of history' explanation is the monetarist one of Milton Friedman and his followers, which attributes the Great Depression to the policy mistakes of the Federal Reserve. For an illuminating discussion of this monetarist explanation see Paul Krugman (2007).

gradually, through the exhaustion of the system's 'growth potentialities' – its 'maturation.'

The importance of competition stemmed from the interconnections between investment, capacity utilization, and profit margins. Because investment increases productive capacities, and firms will not expand these if they have more than demand requires, investment will be cut if capacity utilization cannot be kept up.¹² The maintenance of normal utilization rates was critical, as important to investment as the profit available for it and profit made from it.¹³ Investment depended on capacity utilization rates as well as profit rates, and utilization rates could be increased in only one of two ways: through increases in effective demand or reductions in productive capacity.

The firms of an industry had no control over the effective demand, and demand for their own product depended on that aggregate demand and was ultimately determined by the factors that decided it – the investment and savings rates in the economy. They could not, then, increase capacity utilization through increases in demand, so the only way in which utilization rates could be increased was through reductions in productive capacity, and what ensured these reductions in the past, and kept utilization rates at normal levels, was the competition of firms.

Competition corrected the excesses of industries, adjusting their productive capacity to the demand for their products. When excess capacity developed in a competitive industry, because of excessive investment or a recession, a competitive war would break out. Firms would try to pass the excess capacity off on to competitors, increasing sales at their expense, and the special sales efforts undertaken for this

¹² Firms of course cannot know for certain what the demand for products will be, and some spare capacity will be kept to meet unexpected increases in demand, yet more than that 'equilibrium amount' of excess capacity will not be wanted, as firms invest for profit and unused capacity generates no profit.

¹³ This importance of capacity utilization distinguishes Steindl's development of the Kaleckian theory from Kalecki's own formulation, in which, as Steindl says, "utilization is a purely passive variable" (Steindl, 1976, p. xiv). The other important difference noted by Steindl (1987) lay in their treatment of the markup (Kalecki's was "essentially static," while Steindl's considered industry growth and development).

purpose would ‘knock out’ the higher cost ‘marginal’ firms. Excess capacity would be eliminated through the elimination of firms.

This elimination of excess capacity was the critical function of competition, and the reason for its importance. Competition was essential not because of the ‘efficiency’ of its resource allocations (whatever, as Steindl says, that might mean), but because of the effectiveness of its capacity eliminations. In ridding industries of their excess capacity, competition created space for expansion, sustaining the investment in them, and since it eliminated that excess capacity through the squeezing of profit margins – price cuts and/or product promotions and improvements, it not only kept utilization rates up, but also held profit margins down. It ‘normalized’ them, keeping their levels (at normal capacity utilization) just high enough for the financing of the industry growth,¹⁴ and this, also, had important macroeconomic consequences. For, as profit margins would fall when growth slowed, there would be a shift of income to wages and thus consumption when investment declined, and the long run effect of the decline would be an increase in real wages rather than unemployment.

The effects of a fall in investment were quite different under oligopoly. Here, the decline in investment would increase unemployment in the long run as well as in the short run. There would be no real wage increases to offset the contractionary effects of the decreased investment, nor would there be the ‘other side’ of the profit margin squeeze: restoration of normal capacity utilization rates. Excess capacity cannot be knocked out of an oligopolistic industry through the elimination of firms; there are no small, financially weak firms to eliminate. All the oligopolist can do in the face of an unwanted increase in excess capacity is cut investment, and while this might increase the utilization rate of its own productive capacity, it will reduce that of others, as investment cuts by firms decrease the effective demand for products.

¹⁴ The ‘normal’ profit thus depends on the rate of investment, while the ‘normal’ rate of capacity utilization is the rate that has “no influence on investment,” neither decreasing nor increasing it (Steindl, 1987). Both are viewed in terms of investment requirements, with the determination of profit rates prefiguring the Cambridge growth theory of Kaldor (1956) and Robinson (1964).

Oligopolists cannot rid themselves of unwanted capacity without depressing sales, and the investment cuts undertaken to reduce it end up increasing it. They are not just ineffective; they are counterproductive, as the sales declines that accompany these cuts reduce capacity utilization in other industries, resulting in further investment declines and thus sales and capacity utilization reductions.¹⁵ Investment declines under oligopoly are cumulative, and while the contractions of a competitive economy give way to expansion, those of an oligopolistic one result in stagnation.

Oligopoly ends the cut-throat competition that revitalizes investment, and by the turn of the 20th century, the American economy (the one examined in *Maturity and Stagnation*) had been oligopolized. The industrial concentration of the nineteenth century set the stage for the stagnation of the twentieth century. And, while it was the oligopolistic structure of industry that turned the downturn of the 1930s into the first decade-long slump, it was the spread of oligopoly that had brought on that downturn. The ‘primary’ decline in investment, the first fall off in its level, was caused by the profit margin increase that came with the industrial concentration. This increase in margins decreased real wages and thus sales, reducing capacity utilization rates and investment, and while the rise in stock prices that occurred in the early part of the century held off the cumulative decline in demand and investment, when the rise in stock prices ended, in the crash of 1929, the full effects of the concentration were felt. The economy collapsed, and remained depressed until an exogenous development, the war, brought demand back up.

While the depression was an outgrowth of the concentration of industry, the concentration was a product of the competition that preceded it. Because the larger firms won out in the competitive warfare – they had the cost advantages of their size and the profit needed for innovation and advertisement – competition and concentration were two sides of the same process. And what underlay them both was the ‘aggressiveness’ of capitalist expansion – the accumulation drive of firms

¹⁵ These effects of investment cuts are at the center of Harrod’s growth theory, the reason for its ‘knife-edge.’ Steindl discusses the similarities between his (1952) theory and Harrod’s (1939) in his 1979 article on “Stagnation Theory and Stagnation Policy” along with the differences between it and Kaldor’s (1956).

– that sought investment outlets for savings in the products and markets of other firms. What matured the capitalist economy was the accumulation that ran it, and far from being a chance event, the depression was rooted in the logic of capitalist development.

Though there was not much interest in *Maturity and Stagnation* when the work first appeared – unemployment was low and the post-war growth boom had begun – it has since become a classic in the field. Its macroeconomic analysis is the basis of the Marxian theory of monopoly capitalism (Paul Sweezy was one of the few who had recognized the work’s significance), and when the economic climate changed in the 1970s and stagnation again took hold, the work became widely known (a second edition was printed in 1976). In the meantime Steindl had further developed his analysis (Steindl, 1966), and in the late 1970s and 1980s applied it to the problems of the post-war economy.

3. Post-war Growth

The high growth of the 1950s and 1960s was, as Steindl (1990) notes, as unexpected as the depression of the 1930s. The capitalist economies seemed to have miraculously recovered from the stagnation that infected them, and the early decades of the post-war era were “hailed as miracles in various countries” (*ibid.*, p. 109). Yet, while Steindl was as surprised by that growth as other Keynesians and Marxists, he was not puzzled by its occurrence; it was in no way anomalous, or inconsistent with the account of capitalist development contained in his *Maturity and Stagnation*. The post-war prosperity could be explained in the same way as the stagnation that preceded it, by the requirements and effects of accumulation, and in a number of his post-war papers, Steindl provides an illuminating account of both the decades of prosperity and the stagnation that ended them (the 1970s ‘stagflation’).

The “time of economic miracles” was a time of Keynesian optimism, brought on largely by the increased economic role of government. Governments “had become more conscious of their role in the economy and of their responsibilities” (Steindl, 1979, p. 8), committing

themselves, to one degree or another, to full employment policies (this commitment was lower in the case of America than it was in the European countries). That commitment to Keynesian (demand maintenance) policies lifted business confidence, as businesses were assured of a favourable investment climate, and the fiscal policies of governments also contributed to the buoyancy of investment. Government spending (especially in the USA) was much higher than in the pre-war era – mainly because of the growth of military spending (a legacy of the war) – and although budget deficits were lower, and the expenditure financed out of tax revenues rather than borrowings, the effects of the spending were expansionary. Demand and capacity utilization increased, with capacity utilization rates in the USA rising up to 90% in the 1950s, and this stimulated private investment, which proceeded at extraordinary high levels (it was over 19% of the US GDP in the 1950s and remained above 18% until the end of the 1970s).¹⁶

Government spending can increase private spending – it is not simply an alternative to that spending but a facilitator of it – and, as Steindl (1979 and 1990) emphasizes, increases in public spending can expand the economy even if they are financed out of taxes (as they were in the 1950s). The effects of these increases depends on the incomes that are taxed, for, if the taxes come out of the income of the wealthy or the profits of corporations, they take income away from those that save a part of it. Not all of the income taxed would have been spent, so that its transfer to the government for expenditure purposes will increase the effective demand for products. The ‘balanced budget multiplier’ will be positive, and, in this case, even greater than one, as the taxes on ‘large savers’ reduces the savings rate in the economy, increasing the multiplier and thus resulting in a greater increase in income than the increase in public spending.

In addition to the stimulus provided by fiscal policies, there was also the stimulus of new markets, created by the free trade agreements

¹⁶ In 2011, the share of private investment in the US GDP was only 12.7%; its highest level in the last 20 years was 17.8% (reached in 2000), and its average level over those years was 16.4% (data taken from the Bureau of Economic Analysis: <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1>).

(GATT) of the time. This trade liberalization, a “striking contrast” to the pre-war situation, opened up the European markets to American products, while bringing a “backlog of innovations” to Europe, innovations that had been developed in America during the interwar period. Because these were embodied in new American products, trade expansion with America transferred the technology across national borders (Steindl, 1980), and this in turn greatly boosted growth in Europe. Technical progress can generate an upward trend if the economic conditions are propitious (Steindl, 1982a), and in Europe at that time they were: the Marshall Plan provided the finance needed for the exploitation of the new technology, the optimism the willingness to invest in it, while the buoyant demand provided the market for the products.¹⁷

Trade liberalization brought not only new markets and investment opportunities, it also brought new competition. Foreign competition intensified as trade barriers were lifted, and oligopolists “escaped the claustrophobic conditions” of their home markets through expansions abroad (Steindl, 1990). This increased competition also had a salutary effect; it held down profit margins, warding off the rise in margins that reduced capacity utilization rates, as did the increased bargaining power of workers, which had been enhanced by the tight labour market conditions. The large concerns could no longer easily or cheaply replace workers, as they were able to do in the interwar period. Their interests lay in a stable and satisfied labour force, so they were willing to share productivity gains with workers, while workers did not have to concern themselves with the effects of wage demands on jobs. They could press their demands whenever profits rose.

Though the oligopoly that impaired competition was still present, there was no upward drift of profit margins. Foreign competition constrained prices, while wage pressures aligned prices and costs, as money wages would rise when productivity improvements, or favourable market conditions, increased profit margins. The increases in wages increased the chances of finding markets for the new goods – the

¹⁷ The importance of economic conditions in the productivity growth of the period is discussed further in Steindl (1985a).

television sets, washing machines, and other consumer durables developed in those times – and, as real wages rose with increases in productivity, the “overcapacity and saturated demand” that normally halts an expansion did not materialize (Steindl, 1990).¹⁸

The Keynesian policies, the commitment to full employment and “philosophy of consumption and high wages” worked (Steindl, 1990). Indeed, they worked so well that even when the factors that set off the boom waned (such as the diffusion of American technology and ‘civilian spillovers’ of the wartime innovation), prosperity continued. An “automatic buoyancy” had been instilled into the European and American economies, “as if by a kind of Aladdin’s lamp Keynes had posthumously called up the ‘animal spirits’ [...]” (Steindl, 1985b).

Though growth slowed in the 1960s (especially in Europe), no major setback or change in the “general climate of confidence” occurred until the “great disarray” of the 1970s (Steindl, 1990). This return of stagnation was even more surprising than the prosperity which preceded it, and like that prosperity, was brought on by political developments: the reaction against the welfare state and shift to the deflationary policies of monetarism. Steindl emphasized these developments in his first accounts of the 1970s stagnation, where he attributed it to a change in economic policy – what he (1979) called “stagnation policy.” In later discussions,¹⁹ he also highlighted the economic factors involved, which were intertwined with the political developments, and in a kind of dialectical fashion, had come out of the prosperity itself.

The post-war prosperity increased not only the wage demands of workers, it also increased their interest in labour rights and work conditions. Demands for greater job protection and worker participation rose with the economic position of workers, and it was these workplace demands, along with the rising taxes of the welfare state, that provoked

¹⁸ This wage adjustment of capacity and demand growth works as well as the competitive adjustment highlighted in *Maturity and Stagnation*, and Steindl emphasizes its importance in long-term growth in his 1988 paper on “Trend and Cycle” (published posthumously in 2005).

¹⁹ See especially Steindl (1990).

the reaction against the unions and labour policies (social democracy in Europe and liberalism in America).

Keynesian policies were associated in the public mind with the welfare state (Steindl, 1985), and unions blamed (“quite wrongly”) ²⁰ for the inflation of the times. The reaction against them was thus also a reaction against Keynesianism, and set the stage for what Steindl (1984) called the “return of the Bourbons:” the ascendance of monetarism. Its acceptance changed the prescriptions of economists (Keynes was forgotten) along with the policies of governments, which gave up their commitments to full employment, concerning themselves instead with threats of inflation (imaginary as well as actual).²¹

The post-war prosperity contributed to its end in another way: it increased the savings of households. These rose with the rise in real incomes, increasing significantly in the course of the long expansion, and household savings, unlike business savings, have no favourable effect on investment. Indeed, quite the contrary. These “outside savings” have to be borrowed by businesses before they can be invested, and business borrowings are constrained by risk considerations, as is the borrowing and lending of financial intermediaries (Steindl, 1982 and 1988). The immediate consequence of a rise in household saving is not, then, an increase in investment, but a reduction in sales, and this reduces capacity utilization along with the profits that motivate investment.²²

The increase in household saving increased the size and importance of the financial sector, and this, also, had a depressing effect on the economy. Financial earnings rose with the accumulation of personal

²⁰ The inflation had more to do with the breakdown of Bretton Woods, and the accompanying freeing of exchange rates, than with the power (or ‘money illusion’) of the unions. This breakdown created a fear (and expectation) of inflation, and led to “violent speculation in gold and commodities.” It culminated in the first oil shock, and “to a very large extent world inflation was the consequence of this disarray” (Steindl, 1990). Also see his discussion of the Bretton Woods system in his (1985) essay on Keynes.

²¹ Since this change in the political climate has persisted since the 1970s, what we have experienced in the post-war era is, as Steindl (1979) noted, more akin to a “political trend” than a Kaleckian “political cycle.”

²² These profits, as Kalecki (1954) showed, are inversely related to the savings of household (the “workers’ savings”).

savings (they were ‘invested’ in financial assets), and this growth of ‘rentier’ income – interest, dividends, capital gains and financing fees – not only augmented further the ‘outside savings,’ it also increased income (and wealth) inequalities, increasing the savings rate and thus depressing consumption expenditure (Bhaduri and Steindl, 1985). The investment needed for full employment, and to maintain any given level of employment, became greater, and investment itself was weakened by the growth of finance.

As the earnings of the financial sector grew, so did the lure of finance. It attracted the savings of businesses as well as households, as industrial enterprises and especially the large concerns, became more interested in financial investments and speculations. The oligopoly that explained the 1930s stagnation played an important role in this turn to finance – its persistence, along with the increasing size of enterprises, had affected their “internal structure, organization and management” (Steindl, 1990). Management had become more and more concerned with the market power and position of the enterprise, and since this can be achieved more quickly through mergers and acquisition than battles over market share, which in any case are usually ruinous under oligopoly, attention shifted from production to finance.

While this change in the outlook of management developed gradually over the post-war years, it quickened in the 1970s, when the monetarist high interest policies became dominant (Bhaduri and Steindl, 1985). These made it profitable for industrial firms to turn themselves, or their divisions, into financiers, and this financialization was also an important factor in the 1970s reoccurrence of stagnation. The ‘maturity’ highlighted in Steindl’s classic work on the Great Depression was still central to the growth problems of capitalist economies.

4. Maturity Today

The financialization Steindl warned against has grown in importance. The financial sector is larger, its share of profits greater, and the lure of finance is, if anything, stronger today than when Steindl

discussed it (1980s and early 1990s). Its growth is arguably the reason for our current economic problems, and many have claimed that it is; attributing the 2008 financial crisis and accompanying (and continuing) high unemployment and stunted growth to the financialization of economies.²³ Yet, this financialization started long ago, in the 1970s if not before; it is, as Steindl (1990) emphasized, a long-term development, and it is tempting to ask, as Steindl certainly would have, why its effects took so long to materialize? Were there countervailing forces, as there were in the case of the 1930s stagnation, which kept up growth until the crash of the late 2000s?

An obvious parallel between the current crisis and the Great Depression is the inflation in asset prices that preceded them – the stock market boom of the 1920s and the housing market bubble of the 2000s, which itself was preceded by a protracted rise in stock prices (the Bull market of the late 1980s and 1990s). Steindl (1952) viewed the 1920s stock market boom as the critical counter to the industrial concentration that caused the Great Depression; it had the same effect on investment as a fall in long-term interest rates, and the optimism of the boom also stimulated investment. That optimism was certainly also there in the case of the 2000s housing market (and 1990s stock market) bubble and cheap credit was even more important in that bubble than in the 1920s' one.

The housing market bubble was a credit bubble; it was financed with borrowings from banks and other financial firms, and would not have been possible without their loosening of lending standards and debt securitizations (CDOs). This credit expansion drove the rise in housing prices and the investment in housing it stimulated, but whilst it expanded the economy while it lasted, when the bubble 'burst' its investment and wealth effects reversed. Instead of increasing consumer spending through the optimism and capital gains it created, or the debt refinancing and equity withdrawals it allowed, it depressed that spending along with the investment dependent on it. Household wealth was radically cut, necessitating greater household saving, while the debt that financed the housing bubble remained to be serviced and repaid.

²³ See, for example, Wray (2009).

Debt financed consumer spending is quite different from income financed spending. Consumers have to pay interest on the debt they take on and repay the principal, and though the recipients of these debt payments may spend some of it on consumption, they are likely to be financial firms and wealthier households, neither of which spends much of their earnings.²⁴ Most of the interest paid out of household income will go back into finance, used for the purposes of financial investments or speculations, so that while consumer credit can increase consumer spending in the short run, raising it above the level of household incomes, it cannot do so in the long run. Its long run effects, as Steindl emphasizes,²⁵ are exactly the opposite of its short-run ones: it reduces effective demand, having the same adverse effects on employment and investment as an increase in household saving.

Steindl's relevance today is evident, as is the power of his analysis. If we want to understand the problems of our times, and find a way of solving them, the best place to start is where Steindl left off.

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²⁴ Indeed, the financial firms do not spend any on consumption, though their executives or traders might.

²⁵ See his 1990 paper published in this issue: Steindl (2012).

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