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## Keynesian Spiritus Animalis Approach and the Transformation of the Capitalist System

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**Abstract.** Economic crises have radical consequences. They are major challenges for national and international social policy. The crises are also the cause of reform and of re-definition of theories. The Keynesian approach also emerged from an economic crisis and it has reformed the capitalist system. However, the Keynesian theory itself now needs to be reformed. This paper aims to bring light into the Keynesian theory and the transformation process of capital system. Finally, as lessons for the future two conclusions arise: Firstly, policy makers shall continue to have the assumption that economic crises do not have a simple and permanent solution, which is valid at any time. Secondly, it needs not only traditional economic policies, but especially institutional reforms and new innovative perspectives. In this respect, the Keynesian definition “animal spirit of capitalism” can be useful in predicting the next policy of the liberal economy in the age of globalism.

**Keywords.** Keynes, Capitalism, EU, Economic Transformation, Globalization.

**JEL.** A14, B20, B52, F01.

### 1. Introduction

All economic, political as well as other disciplines are constantly in a process of adaptation and transformation. The main motive behind this process is the needs and choices of the world population, which are in a process of evolution. This evolution process forces firms, institutions, governments and individuals to develop new ways of handling, which can allow them to maximize their profit expectations.

In this evolution process there are some turning points, which differ from any other points. In other words, they are different, because they force discipline or approaches for undertaking radical courses. The Keynesian approach is one such turning point in economic policy.

It has radically changed the economic policy of capitalism in order to adapt the liberal system to new economic conditions. In time of recession and economic collapse it became a breaking point in economic theories. This happened immediately after World War I and continued after World War II. These wars forced not only changes in the political and geographical borders of nations but also forced new change in the course of economic and social developments in societies. John Maynard Keynes was one of those pioneers, who had the trendiest ideas to reform the capitalist economic system.

However, the evolution process is continuing and the needs and priorities of the world population are also changing. Therefore neither the Keynesian approach nor

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the economic system of capitalism can maintain their dominance without new solutions. Through this work, we tried to describe the above mentioned perspectives from an objective and critical point of view.

### 2. The Objective of Study

The rise of global supranational powers like the EU and MERCOSUR in the age of globalization, technical progress and the collapse of communism are forcing redefinition of economic and political theories. In this respect, the groundbreaking theory of Keynes now needs to be reconsidered and reformed as well.

Hence, the aim of this project is to demonstrate how the nature of capitalism changes in order to adapt itself to the economic and social requirements of this new age and to how the Theory of Keynes can be positioned in this process.

### 3. Methodology and Research Question

This study applies a “pluralistic” perspective. It means, different theoretical perspectives are combined and harmonized with a pluralistic and comparative view in order to obtain a realistic long-term perspective on dissuasions on Keynes and globalization.

The research question of this project is, “Why and how does the Keynesian Theory need to be reformed in the age of globalization?”

### 4. Our Contribution

Through this study we want to make contributions to the redefinition of the Keynesian model and to demonstrate how it could contribute to the transformation process of the capitalist system in the age of globalization and technological progress.

Moreover, this study aims to provide innovative perspectives for understanding the structures of economic globalization and the new positions of economic theories in this process. In this way, economists will be able to act more efficiently in making appropriate economic decisions.

### 5. From Adam Smith to John M. Keynes

The so-called classic school of national economy originated in 1776 with Adam Smith’s most important work, “An Inquiry into the Nature and Causes of the Wealth of Nations”. It founded economics as a science in its own right. It was not until near the end of the 19th century that it was overshadowed by other schools: the historic school of national economy, neo-classicism, Marxism, and later Keynesianism.

Mercantilists (from the 16th to late-18th centuries) only considered foreign trade, Physiocrats (18th century) looked only at agriculture, but Smith took into consideration the economy as a whole, including industry, agriculture, and foreign trade. For him, the entire economic development is a connected process.

In the economic sciences, neo-classicism is understood to be a system of theories which came up in the second half of the 19th century and which replaced the classic national economy founded by Adam Smith.

In the course of history, neoclassicism dominated economic thinking until the late 1930s, when Keynesianism took over the dominating role for several decades. Economic crises and economic structures are strongly associated with one another. Yet they are in process of constant development and change and adaptation. Perpetually, this process has repeatedly brought forth phases that have negative consequences for wider society.

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Therefore, the state as a promoter must necessarily intervene in such cases. Keynes's thesis concerns such problems and their solutions. One can't leave the accumulation of capital in a capitalist system to its own progress. In contrast to Marxist theories, the Keynesian approach is not a criticism of the capitalist system. Indeed through his theses, Keynes tries to close the gaps in the capitalist system, to enable it to continue to work.

According to Keynesian theory, the government should regulate the economic balance only if it becomes necessary. In fact, any economy often needs governmental intervention and regulation. The financial and banking sectors in an economy must be frequently balanced by governmental institutes. The Central Banks act as legislative regulators in order to manage monetary and financial stability.

However, in the age of globalization, the role of economic theories as well as definitions of economic policies are changing. In other words, it is no longer accurate to consider economic developments such as crisis and the stand of economic theories in this process just from point of view of Keynes and of laissez-faire perspectives.

### 6. Laissez-faire and Keynesian Theory

The market economy operates according to the principles of Laissez-faire. However, in practice this principle is valid only under certain conditions. When these conditions are not present, then the Keynesian theory plays a role. According to this approach, the state takes the role of regulator in order to adjust the balance of the economy. Therefore fiscal and monetary policies come to the foreground.

In order to fix the economic balance, the government acts by applying expansionary or contractionary fiscal policies. According to the Keynesian approach, when the economy is producing less than its potential output, expansionary fiscal policy can be used to employ idle resources and boost output. It means that the main objective of the Keynesian model is increasing demand via increasing governmental expenditures. In this basic model ( $Y: C + G + I + X - M$ )  $G$  is the main element to fix the economy.

Considering the issue from an interventionist monetarist point of view, it can be seen that the central bank takes an active role through the regulation of monetary circulation. The main instruments of intervention are the central bank's reserves, interest and exchange rates.

Actually the problem is not only repeatedly dipped crises, but also the reasons for the existence of the state. As long as public services are necessary, the regulatory role of the state in the economy will continue to be asserted.

State regulations and economic crisis as well as structural changes in the economic system are closely linked to one another. Nevertheless, they are in a process of constant development, change and adaptation. During this process, there are phases that have negative consequences for wider society. Therefore core prospects of Keynes will remain asserted.

Nevertheless, the question or core idea will not always remain as Keynes once predicted for governmental subsidies to increase demand for more consumption, nor for the regulation of consumer expectations in the era of Globalization and Social Media.

Conditions and types of crises have changed. Reasons for these changes are to be found primarily in consumer behavior and the masses of information and diversity of products and services.

In Keynes' time, stock exchange, information, liquidation and other economic elements were not as flexible and free as they are today. Nowadays, free movement

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of goods, persons and services has become easier. Therefore the intervention of local government in economy alone is not enough to change the course of a crisis. It needs a global intervention by an institution such as the IMF and the World Bank or regulation by a supranational organization such as in the EU's role in the crisis in Greece. In recent developments in the EU region, the IMF and EU Commissions are directly involved in the economic decisions of some of their member countries such as Greece, Spain and Italy in order to overcome the crisis.

In Keynes' time, a large part of society played a passive role in the economic system. There were few companies and important private investors active in the stock market and other financial markets. However, now, in the age of globalization and information technology, an important part of the population is actively involved in financial markets.

Moreover, the Keynesian Theory should be considered from various points of view, depending on the level and type of crisis. If the economic crisis is based on the production costs and in production (real economy), then it would be better to look for solutions in the Ricardian comparative advantage and the Heckscher–Ohlin's factor endowment theories. According to these theories, alternative product locations lead to optimal production. Actually, these theories are applied in the globalized world automatically by the private sector without governmental intervention. What makes it possible is free movement of goods, services and persons. Thanks to globalization, it has become easier to transfer production locations from one country or region to another.

More significantly, in recent crises governmental intervention in the economy has not been as once Keynes predicted, but as predicted by the IMF and other international regulators. As is well known, the IMF policy is not the same as Keynesian expansionary fiscal policy, but looks more like a contractionary fiscal policy, in which the government tries to rebalance the economy through the IMF's austerity policy. Following this contractionary policy, governments try to decrease governmental expenditures and increase governmental income through increasing taxes and cutting budget expenditures.

In fact, Keynes only suggested governmental intervention in economy in order to solve the economic crisis. However, what he could not predict, that in the age of globalization and regional blocks like EU and MERCASOUR, governmental intervention alone is not enough to overcome a crisis. The main reason is that these economies can no longer be controlled by local governments. Especially in EU member countries with free movement of persons, capital and services and with full economic and political integration, member countries are using a common currency such as the Euro and their budgetary policy cannot be considered separately from the EU budget.

### **7. Keynesian Theory and New Economic Conditions in the Age of Globalization**

Main changes which force redefinition of economic theories including Keynesian and liberal perspectives can be listed as follows:

Consumer Behavior (Due to urbanization and use of more technology and new inventions, modern life has become easier and consumers have access to multiple choices and multiple products).

Intensive use of internet and social media influence on the decision making process of consumers and producers

Collapse of communism and reintegration of the former communist block, including China and Cuba, into the capitalist economic system

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Globalization and acceleration of global cooperation between continents, regions, countries, firms and individuals

New types of business models as well as alternative production and manufacturing methods such as in the green economy and in the use of natural gas and shale oil. Due to these new energy sources, petrol shocks like in 1973 are not anticipated any more.

Supranational organizations like the EU and MERCOSUR take on the role of governments. Therefore their intervention in economy is not similar to national governmental policies. Such organizations help their member countries in economic crises. So the expansion of crisis can be limited and its effect can be reduced. The crisis in Greece is a concrete example for this.

In a globalizing world economy, free movement of goods, services and persons is easier than ever. This enables firms to escape by shifting their product centers to countries less exposed to the consequences of crisis. In fact many multinational firm have relocated their production to China, Far East countries and other regions with cheap labor forces.

Countries and economists have more specific experience in dealing with economic crises than ever.

### 8. Concluding Remarks

Keynes tried to find a solution for the crisis of the capitalist system. To do so, he determined the weaknesses and shortcomings of capitalism. His solution for closing these gaps was an expeditionary fiscal policy of governments. His argument was that in times of recession and economic crisis, the government should regulate the market by applying an interventionist policy. Controversially, it was exactly a time of radical economic and political changes. In fact, in 1917 the Bolshevik Revolution occurred and in the following years, many countries entered a complicated age of confrontation and a world economy devastated by the great depression of 1929. In the following period, the West and the Socialist Block built an alliance to end the Second World War on the one hand, and on the other hand, there was an increasing rivalry between liberal and socialist perspectives. The liberals wanted more liberalism and the socialists demanded more socialism and even total communism. In such a controversial situation, Keynes' idea was groundbreaking and yet to some extent pragmatic.

In this project, we have tried to find out why the Keynesian Theory emerged and why the capitalist system needs new approaches.

Observing the economic and political position of the EU in the globalizing world, the political system of the EU has developed since its begin and will continue to do so. There will always be a debate about defining the EU's political system. To date, many terms have been associated with the EU including "civitas Europea", "multi-level governance", "supra-national union", "union of states", "governance beyond the state", "Federation", "superpower", "superstate" and "federation of nation states". That's why, crises in this complex system will not be resolved through Keynesian or other individual theories, but can only be solved by new multilateral and innovative perspectives. In the economic development process of society, crises that require new solutions will always occur. These solutions will not be independent of previous theories; however, the requirements must be compatible to their epoch. The recent crisis in Greece can be seen as an example of such an approach.

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