

## Speculation and Growth under Contemporary Capitalism\*

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A pervasive view of the current financial crisis of capitalism holds that it is essentially an aberration. Some attribute this aberration to specific mistakes committed in the past, for instance by Alan Greenspan with regard to the Federal Reserve's monetary policy. Some, including many belonging to the first category, hold the lack of adequate regulatory mechanism as being responsible for this aberration. Paul Krugman, the current year's Nobel laureate, blames it on insufficient "oversight" of the financial system. And even Joseph Stiglitz the well-known radical economist and Nobel laureate, characterizes it as a "system failure", a term that more or less sums up this entire range of explanations, in so far as it makes the crisis a phenomenon that in principle could have been avoided with impunity.

My purpose here is to argue that the current financial crisis represents *not a failure of the system but the system itself*, that it is the result of the very *modus operandi* of contemporary capitalism rather than being unrelated or extraneous to it. The view that such crises are part of the very *modus operandi* of modern capitalism is not some idiosyncrasy on my part; on the contrary it was central to Keynes' analysis. And accordingly, those who argue that the crisis constitutes an aberration or a system failure, even though many of them advocate Keynesian remedies to get out of it in the present circumstances, are being at best "contingent Keynesians". There is of course nothing wrong with being a "contingent Keynesian". But this fact itself must be noted, as should the fact that Keynes' deep insights into the capitalist system have not yet been fully utilized for an understanding of the current crisis.

Having developed his short-period theory of employment, Keynes sought in *The General Theory* to insert it into a theory of the trade cycle, and in doing so he observed an important characteristic of the cycle. He wrote: "There is, however, another characteristic of what we call the Trade Cycle which our explanation must cover if it is to be adequate; namely, the phenomenon of the *crisis*- the fact that the substitution of a downward for an upward tendency often takes place suddenly and violently, whereas there is as a rule no such sharp turning point when an upward is substituted for a downward tendency" (1949, 314)<sup>1</sup>. He saw the crisis as being endemic to the system, not an aberration in its

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functioning; as one of its essential characteristic as opposed to a symptom of its failure. He attributed the crisis to a sudden collapse in the marginal efficiency of capital, which in turn was related to the phenomenon of speculation.

He defined “speculation” as distinct from “enterprise” as follows: “If I may appropriate the term *speculation* for the activity of forecasting the psychology of the market, and the term *enterprise* for the activity of forecasting the prospective yield of assets over their whole life, it is by no means always the case that speculation predominates over enterprise. As the organization of investment markets improves, the risk of the predominance of speculation does, however, increase” (1949, 158). Speculators in short are concerned, according to him, “not with what an investment is really worth to a man who buys it ‘for keeps’, but what the market will value it at, under the influence of mass psychology, three months or a year hence” (1949, 155).

Now, monetarist writers, whose views have come to dominate the economics profession in the period of neo-liberalism, see speculation as price-stabilizing in asset markets, and hence as an altogether benign phenomenon. And precisely because it is a benign phenomenon, it has little *analytical* significance for explaining booms and crises. Speculation according to Keynes however, did not give rise to asset-market stabilization but to bouts of euphoria or “speculative excitement” as he called it. And in this he was right; speculation in real life is far from being asset-price-stabilizing.

An Indian audience should hardly need much convincing on this score. We have in front of us two spectacular recent examples of price instability due to speculation. The Indian stock-exchange price index, the Sensex, which was climbing dizzily, almost by a thousand points a week, to reach 21000 just a few months ago, has now crashed to less than 9000. Neither the earlier dizzy climb nor the current collapse can be explained by any non-speculative factors, i.e., by any hypothesis that holds speculation to be price-stabilizing. Much the same can be said about the dizzying rise and fall in oil prices that we have witnessed in the space of just the last few months.

Speculation generates bouts of euphoria or “speculative excitement” which have the effect of pushing up asset prices in a cumulative manner. An initial rise in some asset prices, caused no matter how, gives rise to expectations of a further rise, and hence to an increase in the demand for the assets in question which actually raises their prices further; and so the process feeds upon itself and we have asset price “bubbles”. Such “bubbles” typically characterize financial assets, which have low carrying costs and hence are more prone to speculation; but they are not confined to financial assets alone (as the housing market “bubble” in the United States has just demonstrated).

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<sup>1</sup> All quotations from Keynes are taken from the 1949 edition of *The General Theory of Employment, Interest and Money*, Macmillan, London. The page numbers are given inside the brackets.

Such “bubbles” have an obvious impact on the real economy. The rise in asset prices fed by speculative euphoria improves for individuals who own these assets the estimation of their wealth position, and hence causes an increase in their consumption expenditure, and thereby in employment. Likewise such a rise in asset prices, where the assets in question are producible, causes an increase in investment expenditure on these assets, which leads to their larger production, and hence to larger employment. In short, speculative euphoria in the asset markets makes the boom in the real economy, stimulated by whatever had caused the initial rise in asset prices, more pronounced/prolonged. Or putting it differently, speculation acts as a “super multiplier” (to use Hicks’ term) or “compound multiplier” (as Lange put it) upon the real economy. *Speculation itself does not engender the boom*; but it contributes to a prolongation of the boom by the euphoria it generates.

Precisely because of this however if for some reason the asset price increase wanes or comes to a halt, speculators attempt to get out of the assets in question causing a crash in the asset prices. This causes a collapse in the inducement to invest (since the price of the capital asset falls below its cost of production); a collapse in the state of credit, as banks face insolvency; and a possible collapse even in the inclination of depositors for holding bank deposits, as had happened during the Great depression. In short there is a collapse of the state of confidence all around, and hence a corresponding increase in liquidity preference; i.e., there is a disinclination to hold any asset other than pure cash, or in extreme cases only currency, and of course claims upon the government which is considered to be the only safe and reliable borrower. Not all crises display this severity; but to a greater or lesser extent these features mark any crisis.

Speculation therefore, has the effect of making the boom more pronounced and/or prolonged; but it also has the effect of precipitating a crisis as distinct from a mere cyclical downturn. In the absence of speculation the boom in the real economy will be a much more truncated and tame affair. But precisely because it is not a tame affair, it is followed by a *crisis*.

This intimate connection between speculation, the existence of an endogenous stimulus for a pronounced boom that acts as a “compound multiplier” upon whatever exogenous stimulus the system has, and crisis, which was underscored by Keynes, is curiously lacking in the kindred theory by Kalecki, who is credited, quite legitimately, with the discovery of the “General Theory” even before Keynes. But while Kalecki’s short period, or single period, analysis of the determination of output and employment in a capitalist economy is similar, and in some ways even superior, to Keynes’ (in so far as he brings the theory of income distribution quite explicitly into the picture and embeds it in the phenomenon of monopolistic and oligopolistic market structures), speculation plays absolutely no role in his analysis. As a result, even though Kalecki developed an extremely interesting model of an “automatic” business cycle, where the cycle results from the interplay between the two aspects of investment, as a creator of demand and as an addition to productive capacity, his cycle was

not marked by the bouts of exuberance and depression that typically characterize the phenomenon, at least in the era of finance. Kalecki's "crisis" does not have the characteristic emphasized by Keynes of a sudden collapse of the state of confidence; likewise his "boom" does not have the dizzying euphoria, again emphasized by Keynes, that booms under capitalism typically display.

Two conclusions follow from the above analysis based on Keynes. First, since speculation is endemic to modern *laissez-faire* capitalism, where financial markets play a major role, speculation-engendered euphoria and the consequent pronounced booms, together with crises in the sense that Keynes had defined them, are also endemic to modern capitalism. "Bubbles" constitute in other words the *modus operandi* of the system. Secondly, if "bubbles" are to be eliminated and speculation is to be curbed, then it is not enough to put in place some regulatory mechanisms; *an alternative instrument for generating pronounced booms in the real economy has to be found*, for otherwise the economy would remain more or less perennially sunk in stagnation and mass unemployment.

The contrast between Keynes and Dennis Robertson on this question is instructive. Robertson had argued that to eliminate the trade cycle, and hence by implication the rigors of the crisis, monetary policy should aim at increasing the rate of interest to truncate the boom deliberately; that is, whenever employment increased over the level corresponding to the average, say, of the past decade or so, monetary policy should deliberately aim at preventing such an increase, and likewise whenever employment threatened to fall below this average level. Robertson thought that full employment was an "impractical ideal", but monetary policy of this sort, while stabilizing employment at some level less than full employment, might well do so at an average that was higher than what would actually obtain on average if the trade cycle ran its full course. Keynes was skeptical about this last proposition, and indeed thought that the opposite was more likely. But above all he felt that such an outlook was "dangerously and unnecessarily defeatist. It recommends, or at least assumes, for permanent acceptance too much that is defective in our existing economic scheme" (1949, 327).

Instead what he suggested was that government policy should aim to achieve full employment; accordingly, his suggestion was that when "disillusion" came, and with it the "error of pessimism" that threatened a collapse of the boom, monetary policy should aim at lowering the rate of interest to keep the boom going. "Thus the remedy for the boom", he wrote, "is not a higher rate of interest but a lower rate of interest! For that may enable the so-called boom to last. The right remedy for the trade cycle is not to be found in abolishing booms and keeping us permanently in a semi-slump; but in abolishing slumps and thus keeping us permanently in a quasi-boom" (1949, 322). But, above all, taking the economy close to full employment and keeping it there was not a task exclusively of monetary policy; fiscal policy had to be used in addition, with the State playing a pro-active role in demand management. Keynes

in short wanted the regime of “bubbles-led growth” such as characterized so-called “*laissez-faire capitalism*” in the era of finance to be replaced by a regime of State-led growth or fiscally-stimulated and fiscally-sustained growth.<sup>2</sup>

The fact that finance capital would oppose such State intervention in demand management, or what he called the “socialization of investment”, was anticipated by Keynes, whence his remark about the need for the “euthanasia of the rentier”; after all, when Lloyd George had put forward a proposal on his advice in 1929 for public works financed by government borrowing to mitigate unemployment which was already quite high by then in Britain, the British Treasury, under the influence of the financial interests represented by the City of London, had come out in opposition to it. This “Treasury View”, which had held that any such borrowing-financed public works project would “crowd out” private investment, to use a contemporary phrase, was what had called forth Richard Kahn’s famous 1931 article on the “multiplier” by way of intellectual rebuttal.

Keynesian demand management overcame this opposition and gained currency only in the post-war period when there was a changed correlation of class forces all over the world, with finance capital in retreat and with working class movements, whether expressed through Communist or Social Democratic movements, in the ascendancy. This conjuncture however, even though it lasted for well over two decades, finally had to change. Finance capital, strengthened over time even during the Keynesian period by what Marx had called the process of “centralization of capital”, acquired eventually the nature of *international finance capital*, through a process of “globalization of finance”; as a consequence, the incompatibility between the caprices of finance capital and State intervention in demand management became insurmountable. With “globalization”, the caprices of such *international finance capital* necessarily had to triumph over whatever autonomous predilections the *nation-State* had, for otherwise there would have been capital flight from the economy in question; and this led to the demise of Keynesianism.

But let us leave aside for the moment this changing historical conjuncture. The important analytical point that emerges from Keynes’ writing is that in the absence of State intervention in demand management through the use of fiscal means, the process of growth under capitalism is bound up with the existence of “bubbles”. Bouts of speculative excitement followed by “disillusion” and “errors of pessimism” are the hallmark of capitalist dynamics. Hence periods in capitalism which are not characterized by Keynesian demand management, which means both the pre-war years and the post-“Keynesian” years of neo-

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<sup>2</sup> In drawing this contrast I do not mean that the “bubbles” are not themselves fiscally-aided. The dotcom and the housing bubble for instance were aided by significant tax concessions by the government. But there is a difference between fiscal aid for a “bubble” and fiscally-sustained growth, which typically involves the erection of a regime that tries to restrict the formation of bubbles through regulatory measures.

liberal policies under “globalization”, would necessarily be characterized by “bubbles-led growth”, in which case “crises” cannot be seen as constituting “aberrations” or “system failure” but must be seen as the system itself.

Not to do so amounts to analyzing the neo-liberal epoch as if it is one still characterized by pro-active Keynesian State intervention; it is to miss the distinction between the “Keynesian” and “neo-liberal” periods of post-war capitalism. In the Keynesian period a financial crisis of the current sort would indeed have been an aberration; and it is not surprising that the first major financial crisis to hit the capitalist world occurred only in 1973 (i.e. after the “Keynesian” era had ended, with the introduction *inter alia* of free financial inflows among major capitalist countries). But under the “neo-liberal” dispensation it is the rule, exactly as Keynes had argued.

## II

It follows that in the United States in the recent past if “sub-prime” loans had not been given, or if financial “oversight” had led to brakes on lending, or if the rate of interest had not been lowered, then the boom would have come to an end much sooner than it did, and unemployment would have increased much earlier. True, the crisis would not have been as severe or sharp as it has turned out to be, but the price paid for a possibly less severe crisis would have been a less pronounced or sooner truncated boom. After all, Alan Greenspan was doing exactly what Keynes had suggested, namely to keep the boom going by lowering the interest rate, so that either the old “bubble” continued or some new “bubble” got generated that would take the place of the bursting old one. The fact that the “housing bubble” that was stimulated by the decline in the interest rate enforced by Greenspan kept the boom going even after the “dotcom bubble” had collapsed only vindicated Greenspan’s position.

Of course any prolongation of the boom in this manner brings with it the danger of a more severe crisis attending its collapse, but then the real panacea for it is not the truncation of the boom but its sustenance through other means, in particular fiscal means. In short, it is not enough to say that “sub-prime lending should have been avoided” or that “the interest rate should not have been steadily lowered” or that “financial regulation should have been tighter”. All these statements have to be accompanied by some alternative suggestion for prolonging the boom; and these would necessarily have to focus on fiscal effort, exactly the way that fiscal effort is being emphasized now as the way out of the crisis by the “contingent Keynesians”. To what extent, and under what other concomitant conditions, the U.S. would have been able to substitute fiscal effort for financial laxity as the means of sustaining the boom, especially in view of the “leakage” abroad of the impact of any fiscal stimulus because of its large import propensity, is a matter that need not concern us here. But the point is that since

financial laxity played a role in sustaining the boom, merely debunking it as the cause of the crisis is inadequate<sup>3</sup>.

Putting it differently, since the so-called “system failure” could not have been avoided with impunity, it is misleading to call it a “system failure”. Rather it is the system itself which was at the root of the trouble. The “system” itself could of course have been replaced by an alternative “system”, of State-led as opposed to “bubbles”-led growth. But that would have meant going back to the era of Keynesian demand management, which the advanced capitalist countries, pursuing neo-liberal policies, including the policy of “sound finance”, under pressure from international finance capital, had already abandoned.

To argue the “system failure” or “aberration” thesis presupposes that the “aberration” did not contribute anything positive to the real economy that in its absence the system would have performed almost equally well. In short it amounts to saying that the system itself can perform adequately without these “aberrations” and hence also avoid crises, but these “aberrations” *gratuitously superimposed upon the system because of lack of “oversight” and lack of regulation*, even while not contributing anything positive to the functioning of the system, contribute towards a “system failure” and a resulting crisis.

Keynesian measures are needed only because of this “system failure”, since once the crisis has hit the system the normal monetary policy instruments cease to work. But in the absence of such “system failure” these normal monetary policy measures are quite adequate for the system.

Paul Krugman, currently a strong advocate of a Keynesian fiscal stimulus, is quite explicit on this. He argues for instance that the “Treasury View”, which held that a fiscal deficit “crowded out” private investment and which Kahn had criticized in his famous 1931 article, “makes good sense” in normal times. His argument is not of the *simpliste* kind which holds that the interest rate equilibrates the demand for and supply of “savings”, or of “loanable funds” or some other flow variable, and that a fiscal deficit, by increasing the demand for such a flow variable, “crowds out” private investment. On the contrary he sees

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<sup>3</sup> This should not be taken to mean that fiscally-sustained booms, which overcome the syndrome of bubbles and the bursting of bubbles, can for that reason last forever. They obviously cannot, but what constitutes the limit to such booms is a matter that need not detain us here. One possible limit is the emergence of supply constraints, especially when colonial style “drain” is no longer available, which can result in extremely high rates of inflation in the presence of speculation. The last section of this paper discusses such speculation-engendered inflation. To prevent such speculation a “Keynesian demand management regime” must ensure social control over the financial sector. In other words, “socialization of investment” requires as a necessary complement “social control over the financial sector”. Even if this is assured, a fiscally-sustained boom will still not last for ever because of class reasons, such as class conflict over distributive shares, and the undermining of the discipline that capital imposes on labour. See M. Kalecki, “Some Political Aspects of Full Employment” in *Selected Essays on the Dynamics of the capitalist Economy*, Cambridge, 1971; R.E. Rowthorn, “Conflict, Inflation and Money”, *Cambridge Journal of Economics*, 1970; and P.Patnaik, *Accumulation and Stability Under Capitalism*, Clarendon Press, Oxford, 1997.

the interest rate as being determined by monetary policy. But he argues that even in the case of an accommodative monetary policy, i.e., even if the short-term rate of interest, which is what is fixed by the monetary authorities, is kept unchanged, the long-term interest rate will nonetheless rise. This is because the long-term interest rate is determined by the expected average of short-term rates (which is Kalecki's theory) and that the people expect the short-term rate to be jacked up in the wake of the fiscal deficit's increasing the level of activity.

Since this is supposed to happen in "normal" circumstances, let us focus exclusively on "normal" circumstances. In such circumstances, people will expect the short-term interest rate to be raised only if *there is no full "crowding out"*, i.e., only if the level of activity increases in the wake of the fiscal deficit. But in such a case the total magnitude of profits, and hence the rate of profit, will also increase which will push the marginal efficiency of capital schedule outwards. If this happens then despite people expecting the short-term interest rate to rise in the future, there will be no reason why there will be any crowding out at all. In other words, if we assume full "crowding out" then there is no reason why the interest rate should at all be expected to rise and hence for any crowding out to occur at all, which invalidates our assumption; on the other hand, if we assume partial "crowding out" then the rate of profit must increase which implies that even if the rate of interest is expected to increase there need be no crowding out at all. Thus whichever way we look at it, the argument is flawed, and reflects the discomfort of contemporary economists, even radical ones, with Keynesianism.

Krugman argues for a Keynesian fiscal stimulus in the current situation because he contends that the advanced capitalist economies are in a "liquidity trap" where there is no expectation of a rise in the interest rate in the foreseeable future, and hence no question of any "crowding out". But since private spending is not sufficiently forthcoming, a fiscal stimulus is essential.

This illustrates what I call "contingent Keynesianism", that in "normal" times we do not need Keynesian fiscal stimuli because the economy performs adequately without them. But only when an "aberration" occurs, of the sort we currently have, a Keynesian fiscal stimulus becomes necessary. But this distinction between "normal times" and periods of "crisis" resulting from "aberrations" is itself invalid. If in "normal" times fiscal stimuli are avoided because they supposedly "crowd out" private investment, then such "normal times" must be characterized by "bubbles-led growth", as Keynes had suggested, in which case the "crisis" must be seen as being embedded in such "normal times".

The "contingent Keynesian" argument restricts the application of Keynesianism to crisis periods alone (this is reminiscent of Schumpeter's concession to Keynesianism that it could be legitimately considered only as the economics of the "depression" period) when "sound finance" has to be abandoned because monetary policy ceases to work as the economy is caught in a "liquidity trap".



### III

A word on the concept of the “liquidity trap” may not be amiss here, since it is commonly misunderstood. The usual interpretation of the concept, namely that at a certain interest rate the demand for money becomes infinitely elastic because bond prices are so high that everyone becomes a “bear”, is meaningless: if people still hold bonds at this interest rate, the question arises: why do they do so? And if they do not hold any bonds, i.e., all bonds are held by banks, then the idea of an infinitely elastic demand for money loses all meaning. The “liquidity trap” cannot be reflective of a state of equilibrium in wealth-holding decision, as the liquidity preference schedule is. Any point on this schedule shows the demand for money at a certain interest rate on the presumption that this demand is the aggregation of individual demands *if every individual reaches an equilibrium with regard to the form in which he or she holds his wealth at this interest rate*. But this cannot be said of the “liquidity trap”. The “liquidity trap” is not reflective of a situation where every individual is in equilibrium with regard to his or her form of wealth-holding at the corresponding interest rate. The “liquidity trap” therefore, can never be considered a part of the liquidity preference schedule, as is usually depicted in textbook diagrams.

It can only be considered as a state of affairs arising in the context of a dynamic disequilibrium where at the prevailing interest rate people prefer holding money to holding bonds but are content to hold their existing portfolios even if these are not optimal from their points of view. It is, in other words, a situation where the *ex ante* demand for money at the prevailing interest rate is higher than the *ex post* holding of money *for all economic agents including banks*, but this fact does not alter the interest rate because agents are content to let this divergence persist.

This situation of “excessive” liquidity preference typically is supposed to be unrelated to the state of the marginal efficiency of capital schedule, and the “liquidity trap rate of interest” is simply supposed to generate, given the state of the marginal efficiency of capital schedule, an amount of private investment that is way below what full employment, or even an adequate level of employment, warrants. But this understanding is erroneous. Liquidity preference and the state of the marginal efficiency of capital schedule are themselves not unrelated, the desire to hold money being simply the obverse of the collapse of the marginal efficiency of capital schedule.

This fact is missed by many writers who hold the *existence of an independently given “liquidity trap” as the main reason why the self-equilibrating nature of the labour market may break down*, i.e., why a crisis of persisting unemployment may arise. (Here we are talking about general perspectives and not specific explanations of the particular crisis of the present). *The liquidity trap however, is not the cause of the crisis, in which case since the occurrence of such a weird phenomenon of excessive liquidity preference can be assumed to be rather rare, the crisis itself would be rather rare*. It is on the

contrary a result of the crisis, or more accurately a reflection of the crisis which as we saw earlier is endemic to the system and is marked by a collapse of the marginal efficiency of capital schedule.

Much of the monetarist critique of Keynesianism is based upon this misinterpretation, of the “liquidity trap” as being the cause of the crisis, the “fly in the ointment” that alone can prevent the smooth self-adjustment of markets including the labour market. For, as long as the liquidity preference schedule is downward sloping and the interest rate can be pushed down with an increase in money supply in wage units, a money wage cut will always raise employment, exactly as orthodox theory predicts. Only in a liquidity trap, however, will things be different. And if a liquidity trap represents such an extreme case that it is more a *curiosum* than anything else, then all is well with orthodox theory.

But this interpretation both of the “liquidity trap” and of Keynesianism is wrong. Once we see Keynes’ theory in the context of a cyclical process where the cycles are associated with the building up and bursting of speculative bubbles, then clearly “excessive” liquidity preference, characteristic of the crisis, or the bursting of the bubble, becomes a real life phenomenon. And when there is this excessive liquidity preference, captured in the concept of the “liquidity trap”, neither monetary policy, nor any money wage cut can eliminate unemployment. The self-equilibrating market disappears into thin air.

To be fair, the “contingent Keynesian” position perhaps sees the situation of “excessive” liquidity preference in this manner; but it attributes its emergence to aberrations rather than the very functioning of the market system in the context of speculation. But precisely because it is “*contingent* Keynesianism” its belief that the “normal” functioning of the market is smooth, weakens its own case *visa-vis* the orthodoxy. The fact that the idea of a coordinated fiscal stimulus by a group of advanced countries, which was an idea put forward by Keynes among others during the Great Depression and which was revived recently during the G-20 meeting, has been pushed into the background of late is the result of pressure from international finance capital, and has therefore, to do with material interests rather than with intellectual reasons. But the intellectual diffidence of “contingent Keynesianism” because of the concession it makes to orthodoxy that its analysis is valid in “normal times”, certainly does not help its cause.

#### IV

So far I have discussed only one aspect of speculation as it affects growth under contemporary capitalism. Let me now move on to another aspect. The boom creates inflationary pressures in critical primary commodities like oil. In the case of agricultural primary commodities, any inflationary pressures can be kept in check through the imposition of an income deflation on third world economies from which many of these agricultural primary commodities originate and where there is much absorption of all such commodities. But in the case of oil where the major producers are organized into a cartel, the question of imposing such

income deflation simply does not arise. In the case of oil, and hence of such other commodities whose prices move in a manner complementary to oil, such as foodgrains in the recent period because of the diversion of grains towards bio-fuels, the capitalist boom is associated with inflationary pressures which get aggravated because of speculation. Even in the case agricultural commodities whose prices are not directly linked to the price of oil, speculation may still lead to substantial increases in their prices, notwithstanding the income deflation imposed on third world countries through the “neo-liberal” policies associated with globalization.

In short, in the boom speculation operates on prices of assets, especially financial assets which keep the boom going; it also operates on the prices of commodities, which threaten the boom and which in any case bring great hardships, even during the boom, to the ultimate users of such commodities (The benefits of such speculative price rises of commodities scarcely accrue to the direct producers of such commodities, who happen, in general, to be peasants and petty producers). It follows that even if the world economy gets out of the current crisis of recession, that fact will only reopen the prospects of commodity price inflation. The recession caused by speculation is bad enough; but the inflation caused by speculation that follows in the wake of the world economy getting out of the recession will be even worse. Speculation in the era of international finance capital in short pushes capitalism into a crisis of a profound sort, where the “crisis” as Keynes saw it is embedded within an even deeper crisis, whose hallmark consists in the fact that overcoming the crisis of recession will almost immediately, or within a fairly short period, push the economy into commodity price inflation, especially oil price-inflation, which will have serious consequences for foodgrain prices and hence for mass hunger. The system’s space for operation shrinks drastically because of speculation in contemporary capitalism.