Eckhard Hein, Engelbert Stockhammer (eds.):

A Modern Guide to Keynesian Macroeconomics and Economic Policies

A Comment

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1 Background

• Modern Keynesian theory often identified as New Keynesians, or as a part of neoclassical synthesis, but not as post-Keynesians

• Hence, unclear contours of what Keynesianism is

• There is no broadly accepted Keynesian textbook on the world book market

• Leading textbooks from neoclassical synthesis authors, e.g. Samuelson, or New Keynesians – Blanchard, Mankiw, Krugman

• Not clear what true Keynesianism is ...

• Many post-Keynesian textbooks did not find a great readership

• Textbooks shape mainstream paradigms
2 The book’s thread

- A guide to Keynesian macroeconomics – or to post-Keynesian macroeconomics? What is Keynesian, what is post-Keynesian?
- It is a guide to post-Keynesian macroeconomics, understood as a „broad camp“, with emphasis on Kaleckian strand
- Is this „guide“ a textbook? No!
- A guide to Keynesian policies? Keynesian policies not clearly defined. Much disagreement in „broad camp“.
- Thread of book is best represented by Marc Lavoie` s introduction
### 3 Lavoie: heterodox vs. orthodox economics

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4 Lavoie: Presuppositions of post-Keynesian economics

- **Group I**: realism, organicism, reasonable rationality, production, disequilibria/instability

- **Group II**: principle of effective demand, investment causes saving, institutions make a difference

- **Group III**: monetised economy, historical and irreversible time, non-ergodicity, fundamental uncertainty

- **Group IV**: power relations, open systems, pluralism, social concerns
5 Lavoie: strands of post-Keynesianism

1. American/financial/Marshallian post-Keynesians:  
   → Weintraub, Davidson, Minsky, Kregel, Wray
2. Kaleckians:  → Robinson, Steindl, Bhaduri, Sawyer, Dutt, Lavoie, Hein
3. Sraffians/neo-Ricardians:  → Garegnani, Pasinetti, Eatwell, Schefold, Kurz
   and perhaps two more strands
4. Kaldorians:  Thirlwall, Godley, McCombie, Cornwall
5. Institutionalists:  Galbraith, behavioural economics?
6 Lavoie: Controversies within the post-Keynesian paradigm – is there coherence?

• Post Keynesianism (Davidson) vs. post-Keynesianism (Cambridge Keynesianism after Keynes)
• Fundamental uncertainty versus complexity
• Marshallian versus Kaleckian micro foundation
• Wage-led versus profit-led growth
• Actual versus normal rates of capacity utilisation in the long run (what really is the long run?)
• Debt-led versus debt-burdened economies
• Finance vs. managerial capitalism
• Horizontalism versus structuralism in monetary theory
• Flexible versus fixed exchange rates
7 Some comments

What really is „modern Keynesianism“ in this book?

- excluded: neo-classical synthesis, New Keynesians, dissenters to orthodoxy still rooted in orthodoxy (e.g. Krugman, Stiglitz (?), Rodrik, Shiller); non-Keynesian heterodox schools (evolutionary ec., institutional ec., ecological ec. ...)

- „Broad camp“ of Keynesians, lack of coherence is accepted, Kaleckians predominating

Mainstream is no longer exclusively neoclassical orthodoxy – ramifications of orthodoxy; is old orthodoxy shattered?

... only if new paradigm emerges

Lavoie: much consensus among 3 or 4 strands, despite controversies, loose coherence sufficient
• **BUT: a set of consensus principles is needed!**

  John King: diffuse Keynesianisms in the PK camp doomed to fail in the long run; should be more than a camp of dissenters to mainstream economics

• Candidates for consensus:
  + production of goods instead of allocation of scarce resources
  + predominance of effective demand, demand-driven supply
  + investment is not inter-temporal allocation → theory of capital accumulation
  + micro-economics embedded in macro; more micro-foundation of macroeconomics is necessary (Ricardian, Marshallian, or Kaleckian?)
  + capitalism as a monetary production economy
+ Rejection of rational expectation theory: reasonable rationality with uncertainty, historical time
+ Micro rationality can turn into macro irrationality and economic desaster
+ Inherent macroeconomic instability
+ State intervention necessary for stability, presupposition that capitalism can be stabilized
+ Set of agreed policies – biggest lack of consensus in PK camp

**New paradigm requires:**

a) raising relevant questions not raised by other paradigms
b) providing a coherent framework of core beliefs, not a comprehensive holistic theory for all problems
c) a set of practical policy conclusions
Finale

- The book is a milestone on the road to shape a new paradigm
- More coherence in the fundaments is indispensible, pluralism above and beyond the fundaments
- Read the book – it provides an excellent overview on the construction points of an alternative paradigm to the mainstream