

**Eckhard Hein, Engelbert Stockhammer
(eds.):**

**A Modern Guide to Keynesian
Macroeconomics and Economic Policies**

A Comment

Prof. Dr. Jan Priewe, HTW Berlin –
University of Applied Sciences

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

<i>Presupposition</i>	heterodox school	orthodox school
<i>Epistemology/ontology</i>	realism	instrumentalism
<i>method</i>	holism, organicism	individualism, atomicism
<i>rationality</i>	reasonable rationality, satisficing agent	hyper model-consistent rationality, optimising agent
<i>Economic core</i>	production, growth	exchange, allocation, scarcity
<i>Political core</i>	regulated markets	unfettered markets

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 disaster
- + 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 fundamentals is indispensable, pluralism above and beyond the fundamentals
- Read the book – it provides an excellent overview on the construction points of an alternative paradigm to the mainstream