Keynesian or Post-Keynesian Macroeconomics?

Review of: Eckhart Hein, Engelbert Stockhammer (eds.), A Modern Guide to Keynesian Macroeconomics and Economic Policies, Edward Elgar, Cheltenham 2011, pp. xxii + 365, hardback, £95.

This volume has its origin in a series of summer schools held in Berlin. The thirteen essays focus on the following elements in Keynesian/Post-Keynesian macroeconomic theory and policy (the number of essays in which each element is prominent is in brackets): history and method of the approach (1), money and finance (4), the international dimension (4), the New Consensus (2), institutions (3), growth (3), distribution (3), labour (2). The tally exceeds thirteen because most of the chapters fall into more than one category, but this list may give a feeling for the scope of the book. Policy is left out because it comes in to most of the articles.

Interesting, for me, is the emphasis on distribution, normally an underdeveloped area in the Keynesian/Post-Keynesian camp. This is linked to a theme which recurs and seems to unite the research programmes of several of the authors, namely the contrast between an economy whose growth is "wage-led" and one which is "profit-led". There are several allusions to this contrast, though the underlying concepts and criteria of definition are under- explained. A chapter devoted to them would have been helpful.

The essays deal with functional distribution. There is growing awareness in the real world that the wage earner has lost ground over the last thirty years, though the headlines have been taken by the distribution by size of individual incomes, as the current "Occupy" protests on behalf of "the 99 per cent" testifies. It would be of great interest to know what light Post-Keynesian economics can shed on the trend in personal income distribution since the 1970s.

Three chapters are concerned with the influence of institutions on outcomes, a feature again very welcome. Of the four concerned with finance, only one deals head-on with the crisis that began in 2007, though the essay on Financial Architecture also includes a section on it. This is somewhat surprising, because, although the annual summer schools that inspired the essays began before 2008, the crisis must have been well underway by the time these essays were collected and/or commissioned. The absence of a stronger emphasis on the relevance of Post-Keynesian economics to this upheaval gives an overall impression of intellectual tranquillity and settled methods and models amongst Keynesian/Post-Keynesian practitioners, which I think slightly misleading. The emphasis on growth models is also surprising, at a time when the limits to growth are so much in evidence in the world and in debate.

The brief seems to have been to give an overview of the subject, rather than to break new ground. This is entirely appropriate for a Guide, and all the essays of the overview type are extensive in their coverage of the literature and clearly written. In addition there are two detailed, searing critiques by Phillip Arestis, one of the New Consensus and one of EU economic policies. There are some original contributions too. The overview of the overviews, so to speak, is Marc Lavoie's opening essay on the history and method of Post-Keynesianism. I think he tries to do too much by including some of the history of the approach, and I am not convinced that trying to attach people's names to individual elements of Post-Keynesian methodology is all that helpful – most would subscribe to all the elements –, but on the whole it is an excellent, comprehensive essay. Particularly clever is his little table of paradoxes, or sources of fallacies of composition (p. 13), which is fuller than I have seen heretofore and up to date with the inclusion of Nesvetailova's (2007) paradox of liquidity, inspired by Minsky.

Stockhammer's essay on (employment and) unemployment (ch. 6) is also original. It falls into two parts, one building on a paper by Lavoie (2003), which tries to re-cast the demand for labour curve. His (and Lavoie's) "effective demand for labour" curve is actually the iso-profit line developed in Chick (1983) (independently of McDonald and Solow, 1981, of which I was unaware; they of course have priority). If the assumption that firms maximise profits is carried over from Keynes (1936), his proposed new line reduces to its highest point for each level of aggregate demand, and as aggregate demand changes these points trace out the conventional demand curve. If Stockhammer is proposing a departure from profit maximisation, his alternative deserves some discussion. The second half makes the interesting distinction of the NAIRU *story* of labour market rigidities, which Post-Keynesians quite rightly reject, and NAIRU *theory,* which Stockhammer argues is compatible with Post-Keynesian thought.

But now I must address my fundamental concern: why "Keynesian" in the title, rather than "Post-Keynesian"? It is not just a matter of the title: in the text itself Keynesian and Post-Keynesian are often used interchangeably, and the names of Keynes and Kalecki, supposedly the thinkers inspiring Post-Keynesianism, rarely appear. What, in the authors' and editors' minds, are the borders and areas of overlap between Keynes, Keynesianism and Post-Keynesianism? It is not at all clear. The editors' comparison, in the preface, of this collection to Holt and Pressman's *Handbook* (2001), which thoroughly conflated Keynesianism and Post-Keynesianism, increases my anxiety.

Joan Robinson intended to create a distinction between the Samuelson-Hicks brand of Keynesianism[1] dominant in the English-speaking countries in the 1950s and 60s and economics based more closely on Keynes and Kalecki when she proposed the term "Post-Keynesian".[2] I have been told that, in Germany, Samuelson-Hicks "Keynesianism" never took hold as it did in Anglophone countries and that therefore the editors felt no need to assert a brand of Keynesianism which was distinct from that "bastardisation". But I cannot really believe that Germany is entirely innocent of IS-LM curves! In any case, the book is published in English by an English publisher, and in Anglophone countries, to call this a guide to Keynesian economics is either confusing or misleading, or both.

The methodological foundations of Post-Keynesianism, as Marc Lavoie so clearly delineated in this volume's opening essay, are quite different from the foundations of what came to be called Keynesianism, as are many of the theoretical and policy propositions. Those methodological foundations are not much in evidence in the bulk of the book, nor are Keynes's theoretical ideas. Where is liquidity preference or the marginal efficiency of capital, and where is the uncertainty so strongly associated with these concepts? Why does the demand for labour need to be justified by a new curve when it is clear that, for Keynes, what we typically observe, unemployment, is properly represented by points *behind* the curve? And so on. The one idea of Keynes to which everyone adheres in this book is the Principle of Effective Demand.

Many, perhaps most, of the essays establish the "Keynesian" character of the particular analysis in play by contrasting it to mainstream theory, particularly a New Consensus framework. This method could have great advantages in teaching, as students are given a plurality of views. But it does not help clarify the distinctions on the "Keynesian/Post-Keynesian" side of the divide. My sense is that, with two exceptions, there is a consensus among these authors that Keynesianism, Post-Keynesianism and Keynes can be treated as if there is no significant difference between them. But this is by no means the position of most Post-Keynesians, who typically see sharp differences between Keynesianism and Post-Keynesian economics – indeed the very origin of the name Post-Keynesian is intended to reflect this.

Every generation has to fight its way out of the womb of what it was taught. This book seems to be born out of the New Consensus. The two exceptions are Lavoie and Dymski. Halfway through the last essay in the book (p. 330) the latter writes: "For Keynesians (or Post-Keynesians), identifying sources of crisis and breakdown in financial processes involves building bridges from Keynes's own insights to contemporary economic dynamics." He goes on to explain the bridges that have been built, why they are bridges, and what they say about the crisis. This to me is the right approach. Keynes is an inspiration, but his theories must not be preserved in aspic. The world changes, and theory must change with it; the bridges must be built. Had this approach been taken as the starting point for this volume, the result might have had more to say about the present conjuncture and been more coherent.

There is a tendency among Post-Keynesians to avoid bringing disputes among heterodox schools into the open, perhaps because being heterodox creates a bunker mentality. But this unwillingness partly explains the muddled thinking behind both policy responses to the current crisis and criticisms of them. It is time to be clear. There are differences between Keynesianism and Post-Keynesianism that are important in addressing the questions which the present crisis has given us the opportunity to pose.

The essays in this book are of the highest quality and give a substantial account of a strand of current heterodox thought. I only wish the strand was more clearly delineated.

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Endnotes

1 Which she called "Bastard Keynesianism".

2 At a meeting convened by Paul Davidson at the ASSA meetings in 1971.

References

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