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MACROECONOMICS  
AFTER KALECKI  
AND KEYNES  
Post-Keynesian Foundations



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# MACROECONOMICS AFTER KALECKI AND KEYNES

Post-Keynesian Foundations

(Edward Elgar 2023)

## **Chapter 1** **'INTRODUCTION'**



### Recent PK intro and advanced (text)books:

- Intro: King (2015), Laski (2019), Lavoie (2006)
- Advanced: Lavoie (2014/2022)
- Distribution and Growth: Blecker & Setterfield (2019), Hein (2014)
- Collection of essays/handbooks/encyclopedia: Hein & Stockhammer (2011), King (2015), Rochon & Rossi (2016/2021, 2022)

### Objectives of the book:

1. provide the foundations for post-Keynesian macroeconomics and a comprehensive post-Keynesian macroeconomic model with the respective macroeconomic policy mix, in order to achieve full employment, constant inflation and to avoid external imbalances.
2. embed these post-Keynesian macroeconomics and macroeconomic policies into the post-Keynesian research programme more generally
3. present the application of some of these post-Keynesian macroeconomics in some recent areas of research

Based on teaching in interdisciplinary and pluralist MA programmes, doctoral seminars and in graduate student summer schools (i.e. FMM summer school)



## 1. Introduction

2. Introduction to post-Keynesian economics: methods, history and current state

3. The principle of effective demand, money, credit and finance: Marx, Kalecki, Keynes and the Monetary Circuit school

4. Post-Keynesian constant price macroeconomic models

5. Post-Keynesian macroeconomic models with conflict inflation

6. A post-Keynesian coordinated macroeconomic policy mix

7. From short-run macroeconomics to long-run distribution and growth: a systematic comparison of different paradigms and approaches

8. Macroeconomic demand and growth regimes in finance-dominated capitalism, stagnation tendencies and the macroeconomic policy regimes

9. Facing ecological constraints: implications and challenges for short- and long-run macroeconomic stability and macroeconomic policies

10. Perspectives for post-Keynesian economics

## 2. Introduction to post-Keynesian economics: methods, history and current state



- Heterodox economics in general, including post-Keynesian economics, is distinguished from orthodox economics from a methodological perspective.
- Different strands in post-Keynesian economics : the fundamentalist Keynesians, the Kaleckians, the Kaldorians, the Sraffians and the Institutionalists.
- Five major claims or features common to these strands: non-neutrality of money, principle of effective demand, fundamental uncertainty, historical time, distribution conflict.
- Stages of development of post-Keynesian economics since the foundation by Kalecki and Keynes.
- Current state of post-Keynesian economics as an alternative to mainstream orthodox economics, including academic infrastructure

### 3. The principle of effective demand, money, credit and finance: Marx, Kalecki, Keynes and the Monetary Circuit school



- Starting point: Schumpeter (1954): monetary vs. real analysis
- Marx's theory of money and effective demand
- Kalecki's theory of money, distribution and effective demand
- Keynes's theory of money and effective demand
- Endogenous credit, finance, investment and saving in the Monetary Circuit school
  - The basics of the monetary circuit theory
  - A monetary circuit without interest on short-term credit and without rentiers holding deposits
  - A monetary circuit with interest on short-term credit and with rentiers holding deposits
  - A monetary circuit including a government – but without interest on initial finance and without rentiers holding deposits

## 4. Post-Keynesian constant price macroeconomic models



- The model economy: Production, finance, income and expenditures
- Endogenous money and exogenous interest rates
- A constant price closed economy model without a government
- The government in the constant price closed economy model: taxes and government expenditures
- An open economy model with constant prices
- Macroeconomic effects of wage inequality
- Macroeconomic effects of gender wage gaps

## 5. Post-Keynesian macroeconomic models with conflict inflation



- Modelling conflict inflation and income distribution between capital and labour in a closed economy without a government: the SIRE
- Unexpected inflation and distribution between rentiers and firms
- The goods market equilibrium with distribution conflict and unexpected inflation in a closed economy without a government: the unstable SIRE
- An inflation-targeting central bank as a stabiliser? Short- and medium-run effects
- Fiscal policy as a stabiliser: taxes and government expenditures in the closed economy model with conflict inflation
- Conflict inflation in the open economy macroeconomic model
- Further medium to long-run endogeneity channels for the SIRE and the NAIRU



## 6. A post-Keynesian coordinated macroeconomic policy mix



<b>Table 6.1: Macroeconomic policy recommendations: New Consensus models (NCM) and post-Keynesian models (PKM) compared</b>		
	<b>NCM</b>	<b>PKM</b>
<b>Monetary policy</b>	Inflation targeting by means of interest rate policies, which affects unemployment in the short run, but only inflation in the long run	Target low interest rates which mainly affect distribution, and stabilise monetary, financial and real sectors by applying other instruments (lender of last resort, credit controls, ...)
<b>Fiscal policy</b>	Supports monetary policy in achieving price stability by balancing the budget over the cycle	Real stabilisation in the short and in the long run with no autonomous deficit targets; affects distribution of disposable income
<b>Labour market and wage/incomes policy</b>	Determines the NAIRU in the long run and the speed of adjustment in the short run; focus should be on flexible nominal and real wages	Affects price level/inflation and distribution; focus should be on stable nominal wages, steady nominal unit labour cost growth and compressed wage structure
<b>International economic policies</b>	Free trade, free capital flows and flexible exchange rates	Regulated capital flows, managed exchange rates, infant industry protection, regional and industrial policies
<b>Economic policy co-ordination</b>	Clear assignment in the long run; co-ordination at best only in the short run	No clear assignment; economic policy co-ordination required in the short and the long run, both nationally and internationally
Source: Based on Hein (2017a, p. 154)		

# 7. From short-run macroeconomics to long-run distribution and growth: a systematic comparison of different paradigms and approaches



- Distinguishing features of orthodox and heterodox theories of distribution and growth
- Basic model for a systematic comparison of distribution and growth theories by means of model closures
- The old neoclassical growth model
- The new neoclassical growth models
- The classical and orthodox Marxian distribution and growth model
- The post-Keynesian Kaldor-Robinson model
- The post-Keynesian Kalecki-Steindl distribution and growth models
- The Sraffian supermultiplier growth model
- Endogenising productivity growth: a Kalecki-Steindl-Kaldor-Marx model

# 8. Macroeconomic demand and growth regimes in finance-dominated capitalism, stagnation tendencies and the macroeconomic policy regimes



- The main macroeconomic features of finance-dominated capitalism and the concept of demand and growth regimes
- Demand and growth regimes before the 2007-09 crises, the change in regimes in the course of and after these crises, and the tendency towards stagnation
- Regimes, regime changes and stagnation tendencies in a stylised Kaleckian distribution and growth model
- Growth drivers, regime shifts, macroeconomic policy regimes and stagnation policy
  - Comparative and international political economy, post-Keynesian macroeconomics and demand and growth regimes
  - Causes for regime shifts and growth drivers
  - Demand and growth regimes, macroeconomic policy regimes and stagnation policy

## 9. Facing ecological constraints: implications and challenges for short- and long-run macroeconomic stability and macroeconomic policies



- Post-Keynesian economics and ecological economics
- Green growth, zero growth or de-growth to fight climate change?
- Can zero growth be stable in a monetary production economy?
  - Some views on the feasibility of zero growth
  - An accounting perspective on zero growth
  - Zero growth in a monetary circuit model
  - An autonomous demand-led growth model with zero growth
  - Some thoughts on stable employment and zero growth

# 10. Perspectives for post-Keynesian economics



- Improve research programme in those areas which are underdeveloped, without giving up strengths in macroeconomics and macroeconomic policies, i.e. ecology, gender, political economy.
- Cooperate with other heterodox schools, like ecological economics, institutional economics, Marxian economics, and with comparative political economy, and international political economy, in order to contribute to a pluralistic political economy research programme.
- Focus and concentrate on defending and improving the heterodox academic infrastructure, regarding university positions, research funding, graduate programmes, journals and appropriate journal rankings, associations and networks, conferences and summer schools.
- Maintain and improve cooperation with trade unions, social movements and progressive political parties, as well as with research institutes and think tanks outside the university sector.
- Make use of windows of opportunity in periods of crises when orthodox economics again and again proves its weaknesses