Book Reviews

Macroeconomics after Keynes and Kalecki. Post-Keynesian Foundations.
By Eckhard Hein.
Edward Elgar Publishing Ltd, 2023, 382 pages, £38.95 (paperback).

Macroeconomics after Keynes and Kalecki covers the fundamentals of macroeconomics at an advanced level. It begins (chapter 2) with a discussion of the foundational features of Post-Keynesian Economics (PKE) and an historical overview of its development since Keynes. Chapter 3 discusses effective demand and finance in Marx, Kalecki, Keynes and the monetary circuit approach. Chapters 4, 5 and 6 are the main parts of the book which develop carefully and by means of extensive model building, comprising almost half of the overall book. These models are based on class theoretical, sociological foundations on the assumption that workers save more than capitalists, that investment depends on demand and (autonomous) animal spirits and that money is endogenous (with a horizontal credit supply). After the core model, extensions with differentiation of the working class and gender pay gaps are presented. Chapter 5 extends this by allowing for conflict inflation, i.e. treating inflation as the outcome of unreconciled distributional conflicts between capital and labour. These competing income claims are mediated by unemployment (dampening workers' wage demand), which gives rise to short-run stable inflation rate of employment (a counter piece to the non-accelerating inflation rate of unemployment). This inflation-neutral unemployment rate, however is (unlike in mainstream economics) endogenous in the medium term. A strength of the book is that after careful presentation and analysis of the core models, policy implications are derived from these models and thus a PK macroeconomic policy package is theoretically grounded (Chapter 6).

Chapters 7, 8 and 9, offer extensions and applications of the core model. Chapter 7 discusses approaches to long-run growth. It presents neoclassical, Marxian and four versions of PKE: Kaldor-Robinson, Kalecki-Steindl, the Sraffian Supermultiplier and an Kalecki-Kaldor model. These PK approaches differ with respect to their assumptions about capacity utilization, investment function and the how they incorporate technological change. Chapter 8 discusses different growth models (and economic policy regimes) in the context of comparative political economy. Different from other chapters, this has an empirical orientation. Chapter 9 discusses the possibility of and conditions for zero growth in Hein's PK macro model (zero growth is a possibility under a set of restrictions).

The book is somewhere between an advanced textbook and a research monograph. Its main chapters 4, 5 and 6, have a textbook feel: step by step they walk the reader through the core model and its extensions with clarity, logical development and accessible material. The later chapters are drawing heavily on recent research articles. Here, detailed discussion of the model mechanics, often less on substantive findings run the danger of coming at the expense of discussion of the significance of the findings (in chapter 7 and 9).

A main contribution of the book is the extensive discussion of the conflict inflation model and a robust, if polite, defensive against alternative PK modelling approaches, in particular Blecker and Setterfield (2019) and Lavoie (2014). The main difference being that the latter do not include full inflation adjustment in the workers' target wage share.[1] Inflation is an important topic that is only slowing receiving the necessary attention within PKE; and Hein deserves credit for featuring it so prominently. Writing this review with the benefit of hindsight shortly after the cost of living crisis (it is likely that the book manuscript was completed prior to the energy price shock), it seems that an explicit discussion of an energy price shock in the model would have been useful.

There are absences in this book, the most significant one is financial instability. While there has been energetic research of financial cycles and a rediscovery of Minsky since the global financial crisis, this is largely missing in this book. Endogenous money is at the core of the book, but not endogenous financial cycles (nor does the book offer a discussion of the pricing and price dynamics of financial assets). The early chapters on monetary circuit theory have firms borrow to finance the running cost and, in the final finance, for investment. Borrowing for financial transactions is not considered, nor is financial speculation.

Macroeconomics after Keynes and Kalecki is an impressive work in terms of clarity, coherence, comprehensiveness and its consistent eye for policy implications. It confirms Eckhard Hein's standing as one of the leading contemporary post-Keynesian economists.

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References

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Hein, E, Stockhammer, E, 2010. Macroeconomic policy mix, employment and inflation in a Post-Keynesian alternative to the New Consensus Model. *Review of Political Economy* 22, 3: 317-54

Lavoie, M, 2014. *Post Keynesian economics. New Foundations.* Aldershot: Edward Elgar

Note

1. For disclosure, Chapter 5 is partly based on joint work with myself (e.g. Hein and Stockhammer 2010); thus it may not surprising that I find Hein's argument here convincing.