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A Modern Guide to Keynesian Macroeconomics and Economic Policies

Eckhard Hein and Engelbert Stockhammer (eds.)

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Reviewed by J.E. King

Several decades ago Robert Solow complained that, while Post Keynesians knew what they were against, they did not know what they were for. At the time there may have been some truth in this verdict, but it is certainly not correct today, as this excellent volume demonstrates. Hein and Stockhammer have brought together an impressive array of authors from Britain, Germany and North America to provide a comprehensive guide to Post Keynesian theory and policy. Their shared

vision of modern capitalism is neatly summarised by the editors as its being:

...a monetary production economy characterised by conflict over distribution of income among social groups and by the particular institutions which mediate this conflict and thus shape the behaviour of firms and households. In such an economy money, finance and thus aggregate demand matter in the short and the long run, and money is therefore in principle non-neutral. Post-Keynesians see such an economy as an essentially dynamic system, moving through historical time from an unchangeable past to an unknown and thus uncertain future. Such an economy is liable to all sorts of fallacies of composition – macroeconomic phenomena cannot be systematically explained by means of aggregating rational microeconomic behaviour – and the economic process is susceptible to systemic instabilities (p. xiii).

Neoliberal policies are therefore unacceptable, and indeed pose a serious threat not just to the livelihood of millions of working people but also to the viability of the entire system.

The book begins with two chapters by Marc Lavoie. In the first he discusses the history and methodology of Post Keynesianism, paying particular attention to its role within the broader community of heterodox economics, the various strands of thought within the Post Keynesian tradition and the most important controversies that have broken out between them. These questions are also considered in Lavoie's second contribution, on the role of money, credit and central banks, but here policy issues are much more prominent. In chapter 3 Amitava Dutt sets out a baseline Kaleckian model of growth and distribution and develops a theme that is central to several subsequent chapters, the distinction between 'wage-led' and 'profit-led' regimes: if the workers' share of total output were to increase at the expense of the capitalists, would this lead to an increase or a decrease in the level of output and employment? A great deal hinges on the answer to this question. Dutt concludes by discussing the complications that might be introduced into the model to take account of technical progress, conflict inflation and financialisation. Next, in the first of his two chapters, Philip Arestis summarises the 'New Consensus' in macroeconomics and criticises it (harshly, and correctly so) for its 'no banks, no money' assumption, which not surprisingly cripples its treatment of monetary policy. Arestis notes that the New

Consensus appears not to have been seriously threatened by the Global Financial Crisis – at least, not yet.

In chapter 5 Hein and Stockhammer analyse some of the theoretical issues raised by Dutt, concentrating on models of conflict inflation and their implications for unemployment. They provide a detailed discussion of the ‘non-accelerating inflation rate of unemployment’ (NAIRU) as it appears in Post Keynesian and mainstream theories. This is elaborated on by Stockhammer in chapter 6, where he emphasises the policy implications of an endogenous and unstable NAIRU: unemployment must be fought in the goods market, by means of fiscal policy, while ‘incomes policy and collective bargaining are recommended rather than dismissed as labour market rigidity’ (p. 157). In chapter 7, David Howell reinforces these conclusions with a survey of the evidence on the (unfavourable) macroeconomic consequences of labour market deregulation and increasing inequality. This is followed by Arestis’s second contribution, an exposition and critique of the macroeconomic model used to determine the policy decisions of the European Central bank. Arestis concludes with some detailed and remarkably prescient proposals for policy reform.

The next three chapters are devoted to open economy macroeconomics. In chapter 9 Robert Blecker sets out an ambitious reformulation of the Hein-Stockhammer model that links inflation, income distribution and exchange rate dynamics. He concludes that the more trade-dependent a national economy is, the less likely it is to be wage-led rather than profit-led. Then Özlem Onaran surveys the distributional implications of globalisation, with a critique of the Washington Consensus and a consideration of some Post Keynesian alternatives, including the balance-of-payments-constrained growth models of Thirlwall and McCombie. In chapter 11 Hansjörg Herr writes incisively on global imbalances, the changing role of the US dollar and the need for a new Bretton Woods.

The book concludes with two chapters on finance. In chapter 12, Hein extends the basic Kaleckian model to take account of financialisation, stressing its impact on consumption, investment, income distribution and the two macroeconomic regimes that were distinguished in earlier chapters. He raises the possibility that financialisation may go hand in hand with stagnation, since two new and plausible regimes emerge from

his analysis: these are the ‘profits without investment’ and ‘contractive’ regimes. Hein’s pessimism is shared by Gary Dymski who, in chapter 13, concludes the book with a survey of the treatment of financial crises in Keynes, in mainstream theory and in Post Keynesian macroeconomics, where (as expected) Hyman Minsky is prominent. Dymski ends with a brief analysis of the GFC, foreshadowing the upheavals of mid-2011: ‘The capitalist system today’, he writes, ‘appears as broken as when Keynes was writing’ (p. 345).

Inevitably, not everything can be covered in a single, reasonably short volume. I should have liked a chapter on fiscal policy, exploring the implications of Abba Lerner’s concept of ‘functional finance’ and criticising the opposing (and very damaging) principles of ‘sound finance’ and ‘fiscal consolidation’. There is not much here to appeal to a (potentially very large) readership in the Global South; issues of economic development are largely absent, and there are no index references to China, India or Brazil. Finally, the important question of environmental macroeconomics is almost entirely ignored (though Lavoie does devote one paragraph to it on p. 27).

All in all, though, this is a very good graduate text that will also appeal to Australian honours students. The chapters by Blecker, Dutt, Hein, Hein and Stockhammer and Stockhammer are technically demanding, with many equations and even some phase diagrams, but they will probably be accessible to anyone with a good, recent degree in economics. The non-technical chapters, by Arestis, Dymski, Herr, Howell, Lavoie and Onaran could be set as recommended reading for second- and third-year undergraduates, and should appeal to academics in the other social sciences who are interested in a coherent and constructive alternative to mainstream macroeconomics. This is a book that deserves to be widely read, and a paperback edition is urgently required.

