REVIEW ESSAY

THE POST-KEYNESIAN ALTERNATIVE

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Joseph Halevi, G.C. Harcourt, Peter Kriesler and J.W. Nevile

Post-Keynesian Essays from Down Under: Theory and Policy in an Historical Context

Palgrave Macmillan, London, 2016, four volumes, hardback editions, $149.95 each.

An overwhelming impression emerges from these four volumes, wherever one begins to read. It is clear that we have been thrust into a series of debates that is longstanding, often unresolved and possibly unresolvable, ingrained as they are in the two contradictory purposes of political economy – understanding and policymaking. Most of the disagreements invoked seem intractable; they include disputes – often quite bitter – over method and starting points and worldviews. The context of controversy hasn't helped either: in some cases, more than the authors have alluded to, lack of response from the mainstream profession seems to have been wilful, to the detriment of both analysis and critique.

There are over 100 essays here – quantitative apportionment between the four authors is impossible thanks to extensive co-authorship and intellectual collaboration – written over four decades, but including some newly written pieces. They are grouped by volume, the first dealing Keynes, Harrod and Kalecki, the second with policy, the third with ethics, social justice and economics, and the fourth with theory. The

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authors hark back not only to Keynes and Kalecki and Harrod but to Marx, to post-1945 Marxists who discussed crisis tendencies and to recent contributions (for example, Luigi Pasinetti's) consolidating what is now a vibrant post-Keynesian tradition, as well as to Schumpeter and more contemporary heterodox writers.

I haven't examined the intellectual 'personalities' of the four main contributors – all to some extent fired by passions for justice, some explicitly religious, some more 'Marxist', some more 'Keynesian' than others, but all, I think, intensely disheartened by the state of contemporary argument around the politics of economic conditions.

Geoff Harcourt's role in post-Keynesian developments is probably the best known through, most recently, the two-volume *Oxford Handbook of Post-Keynesian Economics*, edited with Peter Kriesler, and the slightly earlier collections *On Skidelsky's Keynes and other essays: selected essays of G C Harcourt* – and *The making of a post-Keynesian economist: Cambridge harvest*. John Nevile is an established contributor to understanding fiscal policy in Australia, and Keynesian policy more generally (see II(12)); Peter Kriesler is a sometimes measured, sometimes radical, critic of orthodox policies; and Joseph Halevi a long-time advocate of bringing twentieth-century Marxism into dialogue with the Keynesian-Kaleckian imagination.

Post-Keynesianism emerged even before Keynes's death in 1946, initially in the writings of Michal Kalecki and Joan Robinson. Kalecki and Robinson were originally distressed and eventually angered by the refusal of western policy elites to respond honestly or competently to Keynes's policy prescriptions. The failure of the 'golden age' (from 1945 to the mid-1970s) to deliver lasting full employment or development which could then be transmitted to less prosperous parts of the world soon morphed into a widespread 'post-Keynesian' disgust, which then began to focus intellectually on issues left inchoate by the master. Foremost among these, and well-represented in the four volumes under review, is the problem of ensuring the maintenance of full employment once it has been attained.

Keynesians and post-Keynesians quickly appreciated that the 'somewhat comprehensive socialisation of investment' Keynes saw as necessary for 'an approximation to full employment', did not occur, nor did institutionalisation of the full employment commitment, except sporadically and incompletely, in few countries. These retreats in theory and policy were to be known, and condemned, as 'bastard Keynesianism' by Joan Robinson. Explicit in this realisation was a critique of orthodox policy institutions, especially Treasuries in the anglophone world, perhaps under the illusion that postwar prosperity, such as it was, would render radical political interventions unnecessary. More likely, official resistance depended upon putative anticipations that sustained full employment would shift the balance of class forces away from capital and towards labour – as Kalecki had expected as early as 1943 in his now famous essay 'Political aspects of full employment'. In any case, Keynes's own hopes that his ideas would be able to 'revolutionise' the way the world understands economies were to be dashed.

The type of capitalist economy envisaged in post-Keynesianism is one wherein effective demand (purchasing power) will normally be chronically insufficient for full utilisation of resources, including labour. This means that unemployment is always a macro phenomenon. However, cycles of economic activity, booms and slumps, derive from the volatility of investment, particularly private investment, not from demand deficiency as a first cause. Unplanned investment may be too low or too high to achieve steady levels of economic activity; so counter-cyclical policy (including policies to restructure economies and selective, sector-specific, interventions whenever industries decline or fail to appear) are essential and are imaginable, however awkward this may be in practice. Further, mistakes (too much exuberance, too much restraint) can become cumulative. Economies do not embody equilibrating tendencies due to the uncertainty of returns on investment – businesses cannot be sure they'll make profits during a boom, or even losses during a slump; they are always 'out of equilibrium'. Expectations, though they drive investment decisions, are frequently unfulfilled.

These reasons for caution and indecision are exacerbated by money, particularly its link in a monetary economy with the real economy (production) via 'liquidity preference' (the reluctance of investors to part with their money for investment unless returns are less uncertain than they typically are). A key reason Keynesian and post-Keynesian critics of orthodoxy preferred fiscal policy over monetary policy has been that the former can ensure that the available money is actually spent.

An additional aspect of modern economies, and defining post-Keynesian policy priorities, emerged from the mid-1970s when most advanced economies began to experience simultaneous unemployment and inflation ('stagflation'). For the post-Keynesians, in contrast to monetarists, 'inflation in recession' was seen as the result of conflict over income distribution: businesses were able in these years to increase prices despite declining sales while labour was able to claim, and receive, wage increases despite high unemployment. The institutional power and resources of each class protagonist was sufficient to try to maintain its relative income share, yielding, in the context of declining economic activity and incomes, a sometimes quite bitter distributive contest which took inflationary form.

Kalecki's avowal that 'full employment capitalism' would need new institutions (to reflect the increased bargaining power of labour in particular), if high employment were to be achieved, provided an important theoretical underpinning to this conception. It was always apparent that new institutions, or distinctive political responses, would be necessary both in times of low unemployment and high unemployment, if the commitment to high and well-remunerated employment were to be honoured. Kalecki's discussion of the 'political trade cycle' – claiming that high levels of activity implied more evenly distributed incomes, and vice versa – was of course an important adjunct to this account of post-1974 inflation. (We must also heed Kalecki's insistence that any trends in capitalist development are not independent; they emerge from the cyclical fluctuations.)

The policy remedy for these divisive, but understandable, distributive conflicts was incomes policy, championed by two, but not consistently all four, of the authors under review (see II(14)). The simplest form of incomes policy, and therefore the most commonly entertained, is indexation of wages for price rises. In implementation, this has worked well enough, but it does not solve the problem of wages relativities (over decades, the relative incomes accruing to, say, teachers and mechanics may need varying), and it locks in the existing inflation rate, rather than short-circuiting it. But indexation, whether applied sectorally or nationally, allows more or less open-ended possibilities for the imposition of other macro goals – such as altering the proportional impact of the 'social wage' compared with money wages, infusing health, education and training needs into agreements, sanctioning trade-off experiments with taxation (not normally desirable), or broadening the scope of tripartite (sometimes, bipartite) policy-making. Well-developed incomes policies, centralised and institutionalised as in Australia until 2007, can become incubators for much more comprehensive ambitions in macro-management, including those which 'invite' business to participate in the formulation of investment plans.

Insofar as post-Keynesianism has played a lead role in such expansion of politics, plenty of opportunities emerge for substantive (that is, anti-rationalist) criteria, in exerting public influence over investment to increase employment-generating economic activity or in imposing ethical standards onto distributive arrangements. Deliberate political or institutional interventions are of course thoroughly in keeping with Keynes's own worldview. By the 1930s, he had already cast his analytical and methodological preferences by noting: 'The inevitable never happens. It is the unexpected always'. He invited policy experimentation. This conclusion seriously disrupts any hopes for effective abstraction in economic reasoning.

Kalecki seemed to concur: capitalist rationality is impossible due the conflict between business's desire for control of its environment (unwillingness to concede a role for labour or democracy in investment decisions) and its quest for profitability (which couldn't be secured without relinquishing some of its traditional prerogatives). A further Kaleckian example of normal economic activity militating against rational outcomes is the by now famous declaration (originally 1933) that, although more investment can increase economic activity (and is warranted on those grounds), it also increases future productive capacity and therefore portends future rounds of problems (excess or unused capacity) which themselves will appear intractable – even reinvigorated growth is likely to be unsustainable. The only imaginable solution to this 'tragedy of investment' is a permanent shift from private to pubic auspices in the economy (implying some increase in 'unproductive' or inefficient, publicly mandated activity, itself risking severe business resistance (see I(12) and elsewhere). Market mechanisms and market outcomes should not set the yardstick for desired behaviour.

In my view, the headiest issue canvassed in the collection (and in post-Keynesian political economy as a whole) is discussion of a dynamic relation between capital goods sectors and consumption goods sectors and the implications of the relationship for the possibility of disjunctions or chronic depression (or what became known in the postwar decades, in the hands of Sweezy, Dobb, Hicks and Lowe, for example, as the 'breakdown controversy'). The argument here is, first, that production for accumulation implies different social and technical arrangements (backward and forward linkages, as well as 'proportionalities' between branches) than production for consumption; production of machinery requires production from other producers which is not necessarily easy to ensure. That things can go wrong, that disequilibrium or structural instability are likely, is a recurrent theme in many of Joseph Halevi's essays (see I(25)).

Second, as production becomes more specialized in a modern economy, the need for finance increases and capital must, to an increasing extent, take the form of what Marx called money-capital. These structural aspects of complex economies are *sui generis*; they don't apply to 'petty commodity production' or to barter. They apply to developed economies where productive capacity for advanced sectors needs to be built (but where scarcity doesn't prevail); and they imply that some outputs need to be transformed into inputs – resulting in cycles, crises, disequilibrium, breakdown, chronic depression, sectoral disproportionalities and other imbalances which disrupt hopes for steady processes of capital accumulation.

Thanks to these circumstances, a 'disequilibrium' view emerged: growth is necessarily unstable or de-stabilizing; chronic depression is always a possibility (growth achieved is rarely the growth needed for full employment). Can we be sure the growth of capital or productive capacity will correspond to growth of labour force? Are capital goods sectors more 'leading' than consumption goods sectors (which would then be more 'passive')? The presumption for this type of suggestion has been that investment plans in a capital goods sector determine profitability in the consumption goods sector, again signifying that 'smooth transformation of outputs into inputs' is unlikely. If so, excess capacity with respect to productive equipment will result in a lack of effective demand everywhere.

Conditions or accomplishments that produced (successful) development in the past can't be relied on to continue to produce the 'right' combinations of production and income to ensure it can continue. Sectoral disproportionalities hamper steady accumulation. (On this, as Harcourt has been continually reminding us, Marx and Keynes come together – 'adjectives excepted'.)

Joseph Halevi subsumes these interrelations and their required transitions to a 'traverse-based critique of Keynesianism', implying that non-selective demand management policy cannot prevent some forms of disequilibrium. If so, we must also accept that the Keynesian full employment project will be never-ending, never-completed. Even if it is (momentarily) achieved, can we imagine 'social relations' wherein full employment can be maintained? Can crisis be averted?

There are at least ten essays here dealing with uncertain adjustment processes, including structural changes arising from new technologies or new (or declining) sectors, or altered cost conditions, or changing capital-labour relations, or evolving institutions (private or public). Halevi's contributions often concern the associated problems – of knowing how mature economies actually operate and how we should know them. These issues featured in classical political economy; they were appreciated by Keynes and dealt with fairly explicitly by Kalecki, then later by Hicks and Lowe; but unresolved matters, including revisions to some parts of the Marxian corpus, continue to proliferate. Engels used the phrase 'indecisive depression' to capture the possibility that general laws of accumulation themselves probably do not operate in mature or complex economies, thence casting doubt on the Marxian view that competitive processes fully explain cycles and crisis tendencies (IV(13)).

Why these transitional conditions have been referred to as 'the traverse', rather than something more obviously explanatory such as 'recurrent imbalance', or 'transformative growth' (Ed Nell's term), or the consequences of endemic 'disequilibrium', or transition from one sectoral structure to another, or the instability of stability (suggested by Hyman Minsky), or dynamic analysis, or simply the impossibility of regularised capitalism, isn't well-explained. Perhaps it can be inferred, with some effort, from the cumulative force of these contributions, both severally and collectively. It is apparent that much of the heavy lifting in this task is accepted by Peter Kriesler who readily acknowledges Keynes's central message 'that there is no mechanism which guarantees full employment in capitalist economies' (vol.I essay 6; other crucial essays, on 'the traverse', are I(25), IV(11), IV(13), IV(14), IV(15), IV(16), IV(17), IV(18), IV(19) and IV(28)).

In any case post-Keynesianism has responded to the challenge to depict modern economies as 'abnormal' most of the time to such an extent that considerations of disturbance, and recovery from disruptive events, may now be said to define this particular strand of heterodoxy. The formal and policy-relevant conclusion from these discussions is that stability is unlikely and that the task of discovering or forging employment-generating ‘solutions’ to persistent stagnationist tendencies will be unending, every ‘solution’ a new beginning.

Certainly, we can agree that the policy task of preventing excess capacity is difficult, and different from the more straight-forward one of increasing aggregate demand (I(25), IV(18)); and the transitional stages throw up the occasional need to decommission or liquidate productive capacity, or to deal with the Schumpeterian phenomenon of ‘forced investment’, which also prematurely hastens the redundancy of technically adequate equipment. Keynesian and post-Keynesian approaches have always recognised the irreversibility of investment decisions; time travels one way, from an irrevocable past to an uncertain future, as Joan Robinson often insisted.

Many of the essays in the four volumes under review deal with ethical questions and the societal obligations they force on economic calculation (for example, III(11), III(12)). The right to work and rights to decent remuneration not only displace utilitarian considerations, they assign pride of place to social justice in debates over incessant pressure for liberalisation and privatisation. John Nevile has been so engaged for decades. In advocating full employment without inequality, for example (III(15)), we can be heartened by Thomas Piketty’s empirical demonstration that the era of economic rationalism and globalist restructuring since 1974 is emphatically an era of increasing inequality of wealth and income – irrespective of how much we may protest his reasoning. The costs associated with wages and deliberative institutions were never just costs; they were the price of civility. The post-1945 institutions may have been imperfect, but they had an impact on not just reckonable outcomes (welfare, public infrastructure, equality, employment quality) but on broader codes of civic decency which endorsed collective efforts to deal with complications from previous policy successes (such as the inflationary effects of high levels of employment and emboldened trade unions). It is a depressing reflection on modern economics that the moral achievements of the past have been so gleefully abandoned. (Of course, other social sciences such as political science were not far behind in sponsoring retreats from uncomfortable decency.)

Geoff Harcourt’s explications of the Cambridge controversies in the theory of capital have been a remarkable part of the revival of political economy over the past four decades. They alerted us to something well known to the classical writers – that the meaning of capital was not captured by (ideologically) regarding it as a 'factor of production' (means of production plus money) to which 'returns' could be attributed. Instead capital must be defined to include the social relations by which labour and equipment are combined in a production process and oriented to delivering a surplus to the 'owners'. Unsurprisingly, this was well-known to Thorstein Veblen (III(24)).

Volume 4, and the series, ends on an intellectually pessimistic note (see IV(36)) – reflecting perhaps Keynes's own judgement, in 1938, that he had 'completely failed' to transform Economics into a discipline able to deliver the social sciences' implicit commitment to the betterment of future generations. For Joseph Halevi, intractable aspects of capitalist economies themselves portended deficiencies in the Keynesian corpus which post-Keynesianism, by virtue of an under-developed theory of the state, has only partly overcome. I wonder though if we need be so despairing and unprepared to experiment. After all, decommodified consumption has now reached almost 25 percent of GDP in OECD countries, meaning that this level of social provision is unrelated to personal work efforts or to productivity or to market forces. In total, public spending is now about 45 percent of GDP (less in Australia) with taxation revenues not far behind. These developments do not signal the arrival of socialism but neither do they suggest the impotence of all political activity. A shift from private to public has been underway for most of the past century; though we need to be more adept at acknowledging and harnessing the emerging possibilities. As another recent book on Keynes – *In the long run we are all dead: Keynesianism, political economy and revolution* (by Geoff Mann, 2017) – has argued, 'existential terror' at the prospect that 'Keynesian reason' will inevitably fail is almost certainly unjustified. Just as we are condemned to live in polities, so too are we condemned to be reformists.

Post-Keynesian political economy has still some distance to travel to achieve fully its purposes (analytical insight and policy acumen). But with these essays the diligent reader can learn much, can see the road ahead and can be encouraged by the depth of this Australian involvement in what is destined to be continuing and an ever more robust intellectual engagement with contemporary capitalism.

Finally, it's a pleasure to read and handle such a handsomely produced series of volumes. The hard covers are tasteful, colourful and clever – though this makes the lapses and inconsistencies in spelling, notes, punctuation, referencing, fonts and formats even more annoying.

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