Macroeconomics after Kalecki and Keynes: Post-Keynesian Foundations.[*]

The eBook version is priced from £20/$26 from eBook vendors while in print the book can be ordered from the [Edward Elgar Publishing website](#).

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It is great news for the Heterodox community the release of the new textbook by Eckhard Hein. I had the difficult task of finishing my review just after the release of an excellent summary of the book provided by Marc Lavoie. I will try to take advantage of Lavoie's (2023) careful review, which I strongly recommend, by making a shorter overall summary of the book. I will highlight some interesting features of the book, such as the policy-oriented perspective and the capacity to build bridges within the post-Keynesian community and with other Heterodox perspectives.

I was quite lucky to spend a year as a visiting researcher at IPE Berlin in 2021-2022, in contact with Hein, in the perfect timing when the book was about to be sent to publication. So I had the chance not only to read the draft chapters, but also to see the use of it (i) for teaching, as I watched some of his classes, at the graduate program at the Berlin School of Economics and Law and at the FMM Summer School; and (ii) for moving forward his research agenda, as I was also in contact with his group, composed mainly by PhD students and Post-Doc fellows. Therefore, I will also explore the importance of the book for teaching and training researchers.

Finally, as the book review is for the Brazilian Keynesian Review, I will also mention the references to the Brazilian post-Keynesian community that we can find in the book.

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1. Brief Summary

The book is composed by 10 chapters, with chapter one being an introduction that makes clear the policy-oriented character of the book, and the objective of providing a post-Keynesian alternative to the "New Consensus Model". The core of the book consists of chapters 4 to 6, where an integrated stock-flow Kaleckian model is provided for the determination of output and prices in the short-run (given capital stock), to discuss the role of macroeconomic policies.

Chapter 4 builds the Kaleckian model with fixed prices. It starts with simple stock-flow accounting and then assumes that firms set prices by marking-up over unit direct costs, that functional distribution is exogenous, and that effective demand determines output (and capacity utilization). Moreover, workers' consumption is determined by contractual wages and rentiers consumption depends on the interest paid on debt. The latter is derived explicitly from the stock-flow accounting, while investment includes an accelerator effect, besides the animal spirits and interest rate. The model is then extended to include the government sector and the external sector. Finally, the model also accommodates wage inequality (both in the general case and for the gender gap).

Chapter 5 relaxes the assumption of fixed prices to include conflict inflation into the model. The conflict inflation model starts with quite consensual Kaleckian foundations, such as mark-up pricing over unit labour costs and consequently the necessity of changes in the real mark-up to change the functional income distribution. Firms change prices to achieve a target profit share, while workers change its nominal wages to achieve a target wage share. Conflict inflation arises when the workers' target wage share is greater than the wage share that corresponds to the firms´ target profit share. Moreover, the target workers' wage share is assumed to depend on the level of employment, as reflecting workers' bargaining power.

Hein criticizes the closure proposed by Lavoie-Blecker-Setterfield, which assumes that expected inflation is not fully incorporated into nominal wage inflation. According to him, it is implausible that workers systematically underestimate inflation expectations. This assumption is crucial to the results of Lavoie-Blecker-Setterfield: stable inflation and distribution, where a higher employment level is associated with a higher but stable inflation and wage share.

He then builds on Hein-Stockhammer version, where the solution for the conflict to influence distribution is via a partial pass-through from increases in wage growth to inflation, and the closure for distribution is made in terms of unexpected inflation. I tend to agree with Lavoie (2023) that this solution may be "a hard read for students", and that in the end the two post-Keynesian ways of modelling conflict inflation leads to similar predictions. This part of Chapter 5 however calls attention to the importance of the theoretical debate on how partial adjustments of mark-up and wages can led to different inflation dynamics and distribution, and certainly will generate further discussion. This debate seems even more important in view of the recent popularity of the idea of profit-led inflation.

The rest of chapter 5 incorporates the changes in inflation that arises from conflict into the model of chapter 4. Changes in inflation feeds back into aggregate demand via changes in distribution and the real interest rate. Using this framework, the chapter then explores the appropriate macroeconomic policies and concludes that fiscal (government spending), rather than monetary policy, is preferable. Chapter 6 addresses the policy prescription of chapter 5 considering an extensive post-Keynesian literature on macroeconomic policy mix, including income policies and the constraints arising from the external sector.

The rest of the book gravitates around these core chapters. Chapters 2 and 3 provide the foundations of post-Keynesian theory applied in the Kaleckian models of chapters 4-6. Specifically, chapter 2 presents the history of post-Keynesian thought and of post-Keynesian institution building, while chapter 3 explains the principle of effective demand and its relation with endogenous money, credit, and finance. Chapters 7 to 9 extend the analysis to the long run, by allowing capital accumulation. Chapter 7 discusses in a comparative way simple models of growth from neoclassical, Marxists, and post-Keynesian traditions. Chapters 8 and 9 addresses respectively some financial and ecological constraints to growth and accumulation. Chapter 10 briefly explores some perspectives for the post-Keynesian agenda, calling for cooperation with other heterodox schools, engagement with political groups and organized sectors of the society, and for an effort in building the post-Keynesian "infrastructure", with the final objective of influencing policy.

2. Five important features

2.1 Open economy, policy-oriented

In my opinion, one important feature of the book is that it incorporates, in an analytical and integrated way, the external and public sectors into a post-Keynesian model. It then uses it to discuss the role of macroeconomic policies, as an attempt to provide an alternative to the "New Consensus model". It also tackles from a post-Keynesian perspective more contemporary problems, like the ones caused by "finance-dominated capitalism" and the climate change. The book is thus very policy-oriented, but with a strong theoretical background behind these policy proposals.

2.2 Building bridges

A second important feature of the book is that, despite the option for specific closures with more Kaleckian flavour in the core models of the book, it provides another important step to build bridges between all the post-Keynesian strands (as well as with other heterodox schools).

Chapter 2 follows the 'the big tent' approach for post-Keynesian economics and 'focusses on the commonalities rather than the differences' (p.11) of five strands – Fundamentalists, Kaleckians, Kaldorians, Sraffians and Institutionalits. Chapter 3 goes in this direction by putting emphasis on the fact that the Principle of Effective Demand is closely related with autonomous creation of purchasing power, via endogenous money and finance. This chapter also shows the contributions not only of Kalecki and Keynes, but also from Marx, to the analysis of 'monetary production economies'.

Chapters 4 and 5 call attention about different (and separable) determinants for prices and quantities, and thus the importance of cost-push and conflict inflation. These three general foundations (i.e., effective demand, endogenous money, and conflict inflation), seem to be increasingly accepted by all post-Keynesian strands. Of course, there is still disagreements with specific behavioral equations and closures, but it seems to me that the agreement on these three principles have made the recent debate between the different post-Keynesian strands much more constructive than it was before. Hein's book, thus, seems to reinforce this constructive perspective.

The book also dialogues with other heterodox schools, such as the Feminist Economics (chapter 4), Marxists (chapter 7), Comparative Political Economy (chapter 8), Ecological Economics (chapter 9), and others.

2.3 Teaching

A third good quality of the book is that it is very well edited, the variables are harmonized and consistent throughout the book, and there is a list of variables provided in the front section. Also, most of the chapters are quite simple, and easy to follow (with the exceptions of chapters 4 and 5). This makes the reading of the book, despite its theoretical density, quite pleasant.

The clarity in the exposure is reflected in many remarkable parts of the book, that I would like to stress. In chapter 3 we can find a very clear and didactical exposition of the monetary and credit 'circuits'. In chapter 6, the many interconnections between Hein's policy recommendations derived from chapters 4 and 5 and the post-Keynesian literature on policy mix is very well tied. Chapter 7 is also quite direct, and the author presents many growth theories and its results using only one equation. We can find many more examples in the book.

For these qualities, I think the book can be a useful tool for teaching, and to become part of the basic bibliography of many post-Keynesian graduate courses. In post-Keynesian Graduate courses specially devoted to train the students in the Kaleckian model (more also on this, below) and its theoretical, empirical, or policy-oriented applications, the book can be the main reference. However, parts of it can also be used as basic reference in other graduate courses, not so focused in the Kaleckian strand. This is the case of chapters 2, 3 and 6 which can be important references for courses in Foundations to post-Keynesian Economics, and chapters 7, 8 and 9 which can be used in courses of growth and distribution.

2.4 Training researchers

A fourth feature of the book is the capacity to provide a systematic method to train researchers. The baseline model of chapter 4 is quite complex and presents many possible outcomes, as some variables have multiple impacts on the economy. As an example, the interest rate may affect the mark-up (and distribution), but also consumption out of debt and investment. Consequently, the net impact on output is *a priori* indetermined since the result depends on the value of the parameters.

The economy can thus be wage-led, profit-led, debt-led, and including public and external sector brings more complexity to the model. Other possible outcomes arise with the inclusion of conflict inflation in chapter 5. Therefore, the analysis opens space for a research agenda to explore these many possible paths. Together with the baseline models, the book provides extensive surveys pointing in many directions through which the literature has advanced, providing insights on possibilities to be explored.

I had the opportunity to watch some classes by Hein at the master program at Berlin School of Economics and Law in which he gave exercises for the students to think in terms of the models of (at that time, draft of) chapter 4, and to explore the results and reflect on possible ways to apply them. The response of the students was very good, as they seem to reason using the models. This method seems to have influenced many high qualities master dissertations and PhD thesis, and this strategy can be said to be successful given the wide production in co-authorship with his students (many of them listed in the references in the book).

The training in more complex models and its development from the inclusion of more feedbacks and relations, however, requires some caution. Even the "New Consensus" is constituted by a set of models, from simple Toy Models to more complex DSGEs, where the former can be "illuminating" to "present the essence of the answer from a more complicated model or from a class of models" (Blanchard, 2018, p.53). Therefore, my advice to the ones that will follow this track is to ever keep an eye on simple (post-Keynesian) toy models. A good example of simple and policy-oriented alternative to the "three-equation New Consensus Model" is provided by Hein himself in a recent book with co-authors (Prante et al 2022).

2.5 Source of references

A final remarkable achievement of the book is the huge number of good references. The bibliography of the book has 40 pages with more than one thousand references. They include theoretical, empirical, and policy-oriented books and papers, from the many subjects discussed in the book, mostly from post-Keynesian authors. This is another contribution and certainly will be very useful as a reference for both graduate students and senior researchers.

3. The contribution from Brazilian authors

Finally, we should notice that the Brazilian post-Keynesian community is recognized in Hein's book many times: as part of the post-Keynesian infrastructure, the several Graduate heterodox programs, such as UFRJ and Unicamp (p.25); the Brazilian Journal of Political economy (p.24); The Brazilian Keynesian Association (AKB) and its annual conference (p.24). Also, the contribution from scholars from Brazilian Universities are listed in the reference, with an additional emphasis to two ideas that has Brazilian Scholars as pioneers: the International Currency Hierarchy (pgs 196fn33, p.210), as a constraint to monetary policy in open economies, with reference to Daniela Prates and Luiz Fernando de Paula; and the Sraffian Supermultiplier, as an alternative closure to demand-led growth models, with reference to Franklin Serrano and Fabio Freitas (p. 17, 220, 234–8, 236–8, 239, 241fn6).

4. Final remarks

Not that long ago, in 2003 I started my master's degree in economics at the Federal University of Rio de Janeiro. I remember my only course based on a post-Keynesian textbook (Taylor, 1991) was ministered by Nelson Barbosa-Filho, and the other many post-Keynesian and heterodox courses were based mainly on original articles and books. I remember also reading the draft of Godley and Lavoie (2007) just before starting my PhD in 2007, recommended by Franklin Serrano. But my PhD courses in 2007 were basically based on original articles as references.

It is delightful to see in less than ten years a rapid improvement in this part of the post-Keynesian infrastructure: the textbooks. We can refer at least to Lavoie (2022), which first edition was launched in 2014, Hein (2014) and Blecker and Setterfield (2019). They are very important to the diffusion of the post-Keynesian knowledge and nowadays I think it is difficult to find a post-Keynesian graduate course which does not include part of them in the basic bibliography.

The recent book of Hein (2023) contributes enormously to this effort of systemizing and disseminating the post-Keynesianism. Its extensive research, the policy-oriented character and the incorporation of new subjects makes it complementary to the other textbooks. It is certainly a great addition to the post-Keynesian infrastructure and students today are certainly much better equipped with tools to move forward the post-Keynesian research agenda.

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