Foreword

Recent years have evidenced a burgeoning of quantitative forms of modelling within the Post-Keynesian tradition. Over much of the Post-WWII period, Keynesian economics has contributed to the development of National Income Accounting and has assisted in the construction of large-scale econometric models for policy analysis and evaluation. Nevertheless, the appearance of the seemingly inexplicable phenomenon of “Stagflation,” characterised by a resilient combination of high rates of inflation with high levels of unemployment, assisted in the intellectual rise of Monetarism is the early 1970s and the subsequent “Rational Expectations Revolution.” Young economics graduates were soon attracted by new modelling frameworks such as Real Business Cycle Theory and its successors, while the New Keynesian synthesis offered a welter of different kinds of market failure that could move the economy temporarily away from its conditions of optimal growth. Somewhere in this proliferation of efficiency wage, Big “S” and little “s” inventory, and credit-rationing models, the point of effective demand seemed to disappear from view entirely (for example, see Blanchard & Fisher, 1990).

Meanwhile, Post-Keynesian side research seemed to languish, in part, due to a shared conception amongst certain eminent Post-Keynesian economists that quantitative modelling was ill-suited to the task of grasping what was essential about the Keynesian vision. Hyman Minsky, for his part, emphasised the importance of financial fragility, occasioned by loss of diversification, increasingly deferred (present value) payback periods, and increasing reliance on external finance on the part of banks, households, and firms. This is precisely the point where Minsky’s (1985) famous analysis of transitions between hedge, speculative, and Ponzi financial positions comes into play.

For Paul Davidson, one of the editors of the Journal of Post-Keynesian Economics, it was Keynesian notions of fundamental uncertainty and fluctuations in animal spirits that were deemed to be responsible for unpredictable shifts in the key behavioural parameters of the macro-economy, including those governing the preference for liquidity, the position of marginal efficiency of capital schedule,
and the marginal propensity to save out of household disposable income. These fluctuations rendered the Keynesian vision opaque to more conventional forms of statistical and mathematical analysis. Here, it would seem, the responsibility for such an implacable stance could be sheeted home to Keynes who, during in his debates with Jan Tinbergen over the validity of econometric modelling, had complained vehemently about a lack of sufficient homogeneity on the part of the available data. Opinions still vary widely as to what Keynes actually meant by this observation, but uncertainty and financial fragility play an undoubted role.

In Development Economics too, the application of both static and dynamic versions of input-output modelling, which readily lent themselves to a straightforward Keynesian interpretation in terms of effective demand, were soon displaced by neoclassical computable general equilibrium modelling, with input-output modules consigned the hum-drum task of determining the aggregation of intermediate inputs into production. In its emphasis on the importance of financial institutions, the strand of literature dealing with financial development represents an exception to the dominant focus of the orthodoxy in development economics, even though members of both the Post-Keynesian and more orthodox tradition have contributed to the debate, one which gained increasing impetus after the mid-1990s Asian Financial Crisis, pitting anti-dirigiste neoliberals against advocates of the interventionist developmental state. Foucault’s 1978-1979 lectures at the Collège de France clearly reveal that neoliberalism, in both its German Ordoliberal and Chicago School versions, was firmly pitted against Keynesianism. For the German neoliberals, demand management, central planning, and the imposition of price controls were the thin edge of the totalitarian wedge. From the American neoliberal perspective, whose political orientations were constituted in the aftermath of the War of Independence, Keynesian interventions were viewed as the external imposts of a military and imperial state. In the person of Milton Frieden, the Chicago tradition found an ardent advocate of Monetarist principles in the field of macroeconomic policy.

Ironically, though, it was the very debates between Monetarists and Keynesians in the early 1980s over the relative effectiveness of monetary or fiscal policy that gave so much impetus to the development of modern time-series econometrics, including co-integration analysis, error correction modelling, and diagnostic testing for the validity and reliability of estimates. At the same time, quantitative modelling and simulation was making impressive forward strides. While any review of these developments must of necessity be partial and incomplete, it is important to appreciate the diversity of Post-Keynesian offerings and the prospects for reconciling previously opposed perspectives.

Researchers such as Peter Skott (1989) and Taylor and O’Connell (1985) constructed formal models to explicate Minsky’s analysis of financial instability.
Meanwhile, building on the earlier work of Robinson (1952), Kalecki (1937), and Steindl (1952), Kaleckians, such as Amitava Dutt (1995), were composing theoretical models of accumulation, which emphasized the importance of finance and debt. In his Minskyan model, Tymoigne (2006) distinguishes between short-term and long-term borrowing, using a system dynamics approach, illustrated with block-flow diagrams. However, as Lavoie (2008) cautions, “[h]is feedback reaction functions are highly complex, but his diagrams are rather hard to interpret.”

Taking off from foundational work with the Cambridge Economic Growth Project (Godley & Cripps, 1983), Wynn Godley and Marc Lavoie (2007) have published a major text on Stock-Flow-Consistent approaches to modelling the macro-economy. For Lavoie (2008), this approach affords the prospect of reconciling what he calls both the Cambridge (which he associated with the Kaleckian or Kaldorian and the neo-Ricardian or Sraffian strands of post-Keynesian thought) and the “Wall Street views” (of the American “Fundamentalist” Post-Keynesians such as Paul Davidson and Hyman Minsky) (Dos Santos, 2005; Eatwell, Mouakil, & Taylor, 2008; Treeck, 2008).

At the New School of Social Research, Anwar Shaikh was engaged in the development of a coherent Classical approach to modelling accumulation and growth, which integrated both the short-run and long-run, while avoiding the Marshallian temptation to conceive of the former as Neoclassical and the latter as Classical. More recently (Shaikh, 2009), he has concentrated on the need to reconcile both Keynesian and Harrodian approaches to macroeconomic growth. The focus of his concerns are two central propositions: first, that a rise in investment will raise equilibrium output via the multiplier; and, second, that a fall in savings rate will raise equilibrium output in accordance with the “paradox of thrift” narrative (Shaikh, 2009, p. 456). In adopting a longer-run setting, Shaikh observes that investment not only creates demand but also raises capacity. From this perspective, he contends that the only self-consistent path for accumulation is one generating output growth at the Harrodian warranted rate. On the basis of this reasoning, he recommends that investment equations be modified accordingly. Those working within this Harrodian tradition also highlight the importance of articulating the relationship between successive short-run and long-run outcomes (Skott & Ryoo, 2008a, 2008b). Of course, if private sector investment always achieved the warranted rate of growth, there would be no need for Keynesian policies of job creation. Building on Shaikh’s Harrodian base, Chatelain (2010) has performed the useful task of incorporating credit rationing into a Stock-Flow-Consistent modelling framework, thus accounting for departures of investment from rates required to achieve the warranted growth path.

Taha’s book focuses on issues of financial development over the longer-term. To this end, Taha draws upon the Structural Vector Autoregressive (SVAR) modelling
of Stockhammer and Onaran. Their parsimonious Kaleckian approach is long-run insofar as it accounts for such things as productivity growth.

The financial system is always a double-edged sword. Sophisticated financial institutions help to mobilise savings and allocate financial resources to sites and projects where they can achieve the highest economic return. The very same institutions, however, can be a source of speculative excess, asset price inflation, and instability. Of course, while it is difficult to account for the prudential influence of regulatory agencies in a macroeconomic setting, aspects of fiscal sustainability certainly can be accommodated. More broadly, a developmental state can assume the role played by the head office of a multidivisional enterprise in managing its subsidiaries by effectively allocating funds to areas that will realize the highest social return. In this manner, Chandler’s insights into the important role of corporate organizational forms are thus extended to encompass key institutions of state such as economic development boards. Taha’s thesis helpfully reviews this literature on the developmental state.

In the aftermath of the Global Financial Crisis (GFC), issues of fiscal sustainability are coming to the fore. Conservatives argue for a necessary return to fiscal conservatism in the form of budget surpluses. Keynesians argue the need for ongoing deficit spending in the US economy to prevent a double-dip recession and restore buoyant global-economic conditions. From the “modern money” perspective (Wray, 1998) endorsed by Taha, budget surpluses are seen to be responsible for the destruction of real wealth, at the same time forcing the non-government sector into deficit, thus eroding the sustainability of non-government balance sheets. At the same time, the real wage repression occasioned by two decades of neoliberal policies has undermined sustainability in countries like the US, where rates of accumulation were maintained through the expansion of credit, increasingly to those less and less likely to repay. In my own research, an important objective is to incorporate detailed government sector accounts into a stock-flow-consistent model (Juniper & Mitchell, 2008). In Stockhammer’s more recent work (2009), a Kaleckian approach to macroeconomic modelling has clearly helped to inform his thinking about these sources of financial crisis. He argues (Stockhammer, 2009, p. 1) that:

> The combination of real wage moderation and financial liberalization has led to different strategies (or at least outcomes) in different countries. While some countries (like the USA) exhibit a credit-fuelled consumption-driven growth model that comes with large current account deficits, others (like Germany and Japan) show an export-driven growth model with modest consumption growth and large current account surpluses.
In my view, Taha made important contributions to debates of this kind about appropriate policy responses to moderate and avoid the repeat of financial crises on such a scale in the future.

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REFERENCES


