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BOOK REVIEWS

Introduction to Post Keynesian Economics

Marc Lovie, 2006, Palgrave Macmillan, New York, Pages 150 + XIV

Many practitioners and students of economics feel that they have no comprehensive alternative but the ideas and teachings of neo classical (or mainstream) economics. Many others presume that even if an alternative exits, it would be incomplete and inchoate. However, Marc Lovie in his *Introduction to Post Keynesian Economics* has made great strides in debunking the belief that "there is no alternative." This must be the case as length and breadth of economic thought has never been too narrow as not to accommodate an alternative way of grasping economic phenomena. This becomes more evident after reading Marc Lovie's account of the Post Keynesian Economics (PKE).

Generally, after World War II and more dominantly after 1980s, neo classical economics with its market based policies and the so called 'Washington Consensus' became the sole prescription available with the leading multilateral institutes for the ailments of developing countries. Moreover, in developed countries too, neoclassical economics became the rallying cry of policy makers. Although based on logical premises, the prescriptions emanating from the neoclassical intellect pool were unable to deliver the promised results. Many developing countries had to face increasing inequality and decreasing social welfare as a price for adopting neo liberal market based policies. Even developed countries had to face with declining annual growth rates and increasing unemployment in their struggle to achieve the utopian world of perfect competition: the ultimate objective of the mainstream economic wisdom. Although many economists questioned the efficacy of neoclassical economic wisdom, it is only in the middle of the twentieth century that the heterodox ideas of, what we call today as PKE, has acquired some unification and coherence.

According to the author, PKE primarily evolves from the extension of Keynes ideas and teachings. Nevertheless, the influence of Kalecki and Saraffa is more dominant in some strands of PKE thought. The recent strides on empirical and theoretical side owed much to Kaldor, Robinson and Weintraub. Post Keynesian economists reject many key constructs of neoclassical economics on theoretical, empirical, and policy fronts and offer alternatives.

The case for PKE is based on the excesses and shortcomings of capitalist system with respect to economic inequality and poverty. The author argues that although capitalism is based on a logical theoretical structure, reality is very different from the perfectly competitive world of neoclassical economics where agents are *absolutely rational* and prices and markets *fully responsive.* Capitalism cannot deliver without regulation, is the underlying theme of the book. As Marc Lovie succinctly writes (p. 131), “[I]f left to itself, capitalism lead to destructive competition and waste. Without state intervention capitalism generates instability and business cycles, and on its own can neither guarantee the full employment of labor nor a sufficient level of aggregate demand.” The thematic argument of the book is supported by the microeconomic and macroeconomic construct of PKE and the associated policy implications. It provides a clear exposition of the post Keynesian ideas on the issues of microeconomics, monetary economics, macroeconomics and economic policy; particularly, the macroeconomic aspects of PKE are covered at a greater length.

Neo-classical economics is based on the presupposition of scarcity of resources and deals primarily with their efficient allocation. It is assumed that existence of unemployed resources is a short term phenomena and the long run reality cannot be other than full employment. PKE rejects these presuppositions and takes instead the existence of unemployed resources both in the short and long run as a starting point of analysis and argue that boundaries of production possibility frontier are itself quite flexible due to technological advancements. Thus, what is important is the level of productive capacity and not the quantity of resources.

At individual level, Post Keynesian economists replace the rationality assumption of the neo classical economics with the *procedural rationality,* that is, consumer instead of going for maximization of utility, go for the satisfaction of her needs according to (subjective) hierarchy of needs. Firms operate in oligopolistic market structure and do not face increasing unit costs at a normal level of capacity utilization. There is no concept of *Walrasian auctioneer* in price setting. Instead, it is assumed that dominant firms set prices on the basis of unit costs and the costing margin (mark up) they deem plausible. Firms’ production decision depends heavily on the expectations about future (assumed to be fundamentally uncertain) and the *profit rate* that it desires to achieve.

The focus of PKE is not the efficient utilization of scarce resources, rather the utilization of resources in a manner that increase the wealth of society. Post Keynesians are concerned with the problem of production rather than the problem of exchange. The economy, post Keynesians believe, is demand determined both in the short and long runs. In PKE money supply is endogenous and depends upon the level of production in the economy. It does not cause inflation but lack of institutional set up is the cause of rising prices. It is assumed that banks are always ready to supply loans to credit worthy customers and that money supply function is horizontal given the interest rate.

The possibilities of existence of unemployed resources have important repercussions for labor market and issues such as technological improvements or productivity increases. First, real effective demand, which determines the employment level, relies heavily on real wages. Second, entrepreneurs cannot increase their profits without sharing the fruits of technological improvement with labor; otherwise, they would end up with reduced profits and national output. That is, *not by antagonism but by harmony that a society gains the maximum*.

Generally speaking, policy prescriptions offered by post Keynesians do not favor market determined outcomes. In fact, they argue that market based outcomes are suboptimal and if left to itself market mechanism will undermine economic growth and employment. It is only by virtue of government intervention that a market could yield a socially acceptable outcome. Likewise, for post Keynesians, price administration, conventions and legislation enhance the stability of the economic system. Labor unions play an important role by ensuring minimum levels of real wages and in this context are beneficial for the economy. Furthermore, austerity policies as advocated by the experts from multilateral agencies are rejected by Post Keynesians. They conjecture that such policies reduce the real effective demand and thus cause unemployment and recession.

Post Keynesian economics is based on sound theoretical foundations but it leaves much to be desired as far as the dominant role of real effective demand is concerned. Supply shocks and the phenomena of stagflation are real world happenings and we cannot relegate supply side by saying that it plays a secondary role to demand dictates. Moreover, some of the policy recommendations of the post Keynesians are very difficult to implement. For example, resurrection of trade unions, the formation of supranational buffer stocks to stabilize the prices of petroleum products and other important raw materials. Indeed, this calls for more research by the Post Keynesians to make their ideas more practical and acceptable.

To sum up, Marc Lovies's *Introduction to Post Keynesian economics* is a short, simple but effective book. It provides faithful introduction to the Post Keynesian ideas and their implications. It is a must read for students and practitioners, intellectually more driven, of the science of Economics at least to get an idea of the alternative to mainstream economics.

Ummad Mazhar
Analyst
Monetary Policy Department