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## BOOK REVIEWS

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**John E King**

**Advanced Introduction to Post Keynesian Economics.**

Edward Elgar, 2015, pp.140. c. A\$40.

**Reviewed by Geoff Dow**

Post-Keynesian political economy has in recent times established itself as the most exciting and rewarding strand of heterodox political economy. This was not always the case insofar as heterodoxy (non-mainstream approaches to economic analysis) predates Keynesian perspectives by at least several centuries and incorporates sociological, institutionalist, mercantilist and religious forms of enquiry. Controversies still dominate, as evidenced in the prolific contributions of other 'Australian' post-Keynesians - Geoff Harcourt and Peter Kriesler. This short book however is valuable and timely since it gives us a chance to take stock of the field so far and to consider where the unresolved issues might lead.

John King's efforts have been persistent (having already given us a History, 2002, and an Elgar Companion, 2012) and are on-going. In *Advanced introduction to post Keynesian economics* he enumerates six core post Keynesian propositions, which, we would have thought, should by now be broadly accepted among political economists.

First, unemployment is not regarded as a market phenomenon but as the consequence of macroeconomic conditions which warrant investigation in terms of the social and political conditions determining income (and output) and investment as a whole. The metaphor of a market (with capacity to drive self-correcting adjustments) is ultimately unhelpful. Second, these macroeconomic conditions are determined principally by the level of effective demand (in turn dependent on the investment decisions of corporate capitalists), with this demand being normally insufficient to generate full employment of labour or other resources. As King puts it, 'Fluctuations in investment expenditure are the key to the business cycle, but there is also a tendency for a chronic deficiency in effective demand ... since the profit share is normally too high, and the

wage share too low, to generate enough consumption expenditure' (p.13). Deficiencies in demand can, however, be 'managed'. Third, investment decision are the key to the operation of a capitalist economy and they determine income and savings (not vice versa). Business expectations of future profitability are crucial for current investment though of course there is no guarantee they will be realized.

The next post-Keynesian stipulate is that 'money matters'; money is never a neutral link between buyers and sellers. A monetary economy routinely entails risks, above all the chance that financial commitments will not be honoured, or anticipated monetary returns not received, or liquidity not satisfactory; and these together render the conventional liberal postulation of equilibrating tendencies preposterous. Ancillary to such potential disruptions is the post-Keynesian realization that the money supply neither indicates nor determines the level of economic activity; the quantity theory of money being quite mistaken on these points. In particular, costs can influence prices, and therefore inflation, reversing the causal flow accepted by monetarists. And in any case the coherence of any notion of the money supply vanishes once we recognize the (fluctuating) availability of credit. Sixth, and finally, a fundamental (radical) uncertainty envelops the outcomes of business investment decisions. Uncertainty and the effects of costs on prices instate state intervention ('socialized' control of investment, and incomes policy to 'regularize' the distributional conflict between wages and profits – and resultant political controversy over the likely efficacy of an expanded state role in economic management) as a standard part of the post-Keynesian worldview.

Though sometimes significant differences in emphasis have emerged for post-Keynesianism, a central judgement, distinguishing it from other dissident traditions (though not, most probably, from Marxian political economy) is the often-observed but ill-understood phenomenon that capitalists frequently resist policy intervention (such as deficit spending) from which they, and society as a whole, would benefit. Comparison of the 'full-employment' era after 1945 with the politics of the past 40 years indicates the damage done by unwarranted relegation of this (Kaleckian) aspect of post-Keynesian analysis.

So, for John King, post-Keynesianism is attuned to the perilous connections between macro-social understanding and present policy choices. Intellectual dispute and political ramifications loom large. In

addition to the above, post-Keynesianism maintains that conventional policy is often (perhaps normally) contractionary, that financial innovation is usually destabilizing, that high and inflexible wages are not necessarily detrimental to economic performance, and, of course, that economies rest on macrofoundations with emergent properties (unintended purposes and downward causation) of their own. Above all, we know from the ‘Cambridge controversies’ (especially Joan Robinson’s contributions from the 1950s) that orthodox liberalism has no coherent concept of capital, the mainstream depiction of capital as a factor of production serving not as a description of reality but a legitimization of private property and an otherwise unjustifiable distribution of income.

This book emphasizes too, that though many of the ontological dilemmas post-Keynesians now engage with derive from Keynes’s insights and musings – witness his 1925 comments on the qualities an interdisciplinary economist must possess and his 1938 comments on the ‘principle of organic unity’ – many of which were not specifically resolved before 1946. Keynesian and post-Keynesian controversies since then concern the status of cycles, crises, incomes distribution and incomes policies (pp.28-30).

John King notes, not wholly enthusiastically, the immense space given to discussions of methodology by post-Keynesians. He himself has a well-repeated preference for pluralism, close to what Sheila Dow refers to as Babylonian method (avoidance of extremes) (ch.4). Others opt more emphatically for a critical realist position which sanctions the need to make inferences from the observed world about causal processes which cannot be observed. We still continue to disagree over the extent of abstraction and formalism to accept in coming to terms with monetary economies. These are weighty issues for all the social sciences – something which puzzled Keynes and his Bloomsbury milieu throughout their lives.

Scholars outside the post-Keynesian firmament are often absorbed by the same questions – consider Baran & Sweezy, John Kenneth Galbraith, institutional and evolutionary political economists, in their problematization of economies of scale, stages (and forms) of capitalism, or the changing conditions of regulation. It seems a pity that a post-Keynesian unanimity is still to be reached on whether politics is becoming more or less necessary, more or less impotent, and whether

debt is an intractable problem or not – Keynesian ‘functional finance’ seems to suggest not. Even the declining relevance of scarcity in contemporary economies is not universally endorsed (ch.5).

John King himself seems still inclined to maintain that the egalitarian and welfare state achievements of the post-1945 era remain temporary (p.13). But on some central questions he seems to withhold judgement. For example, the phenomenon of transformational growth within the rich polities doesn’t get the discussion it seems to warrant, nor the application of Keynesian understandings of demand deficiency to poorer (developing) economies, nor overlaps between protectionist and developmentalist priorities, nor whether the age of financialization portends a longterm ‘age of decline’ (ch.6). While he supports ‘vigilant regulation’ of finance, opposes monetary policy and generally endorses ‘big government’, he is non-committal about whether wage-led inflation is still a possibility (ch.7). Though he has firm views on some particular policy options, elaboration of a ‘Kingian post-Keynesianism’ on others, especially globalism (ch.8) and Sraffian formalism, is truncated (ch.9).

It is unreasonable to expect a 140-page ‘introduction’ to be comprehensive. What we have here is a reminder that post-Keynesian political economy still has much to contribute.

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**Francis Fukuyama,**

**The Future of History: Can Liberal Democracy Survive the Decline of the Middle Class?**

*Foreign Affairs*, January/February 2012.

**Reviewed by Alexander Svitych**

Francis Fukuyama is probably best known for his article and a subsequent book *The End of History?* published more than twenty years ago. In that work the author argued that history ended with the collapse of the Soviet Union and the reign of liberal democracy and capitalism all