European Journal of Economics and Economic Policies: Intervention, Vol. 17 No. 3, 2020, pp. 413–417

Book review

Łaski, K. (2019): *Lectures in Macroeconomics: A Capitalist Economy Without Unemployment*, Jerzy Osiatyński and Jan Toporowski (eds), Oxford, UK and New York, NY, USA (192 pages, Oxford University Press, ISBN 978-0-19-884211-8)*

Eckhard Hein**
Berlin School of Economics and Law, Institute for International Political Economy (IPE), Germany

In October 2015 the Kaleckian economist Kazimierz Łaski, professor emeritus at the Johannes Kepler University Linz and former scientific director of the Vienna Institute for International Economic Studies (wiiw), Austria, passed away at the age of 94. This journal has published an obituary (Riese 2016) and dedicated a special issue to the economics of Łaski (Hein et al. 2019). Therefore, it makes sense also to review the late Łaski's *Lectures in Macroeconomics: A Capitalist Economy Without Unemployment* in this journal. Łaski had worked on the Polish version of this book until the end of his life, and the English translation was then masterfully edited by Jerzy Osiatyński and Jan Toporowski. The outcome is an excellent introduction to Kalecki's theories of distribution, aggregate demand, and employment, with some applications to current real-world problems.

The book starts with an introduction by Jerzy Osiatyński containing a short biography of Łaski and some background information on the gestation of the book. The latter is also touched upon in Łaski's preface. Apart from that, the book has nine main chapters. In chapter 1 some basic macroeconomic concepts and analytical tools are introduced, including the relations between stocks, flows, and sectoral balances which should be of the utmost importance for any macroeconomic theory. Chapter 2 introduces the basic model economy consisting of two vertically integrated sectors, one producing investment and the other consumption goods, and two classes, capitalists and workers. As in several parts of the book, it is assumed that capitalists do not consume and workers do not save – a feature the reader has to get used to. It is shown that the realization of profits requires expenditures by the capitalists of the same amount and that, in a monetary production economy, 'investment spending is the decisive factor determining the volume of output, and thus also aggregate income' (Łaski 2019: 17). Say's law thus has to be replaced by a theory of effective demand. Different from Keynes's theory of effective demand, in Kalecki's approach functional income distribution plays a major role. Łaski thus turns to Kalecki's (1954: chs 1–2) theory of pricing and distribution in chapter 3 and explains the determination of profit and wage shares, in the industrial and service sector of the economy with cost-determined prices, by the degree of monopoly (or the mark-up) and by the ratio of material to variable labor costs.

Chapter 4 provides the core model for a closed economy without a government, showing that, according to Kalecki's (1954: ch. 3) profit equation, aggregate profits are determined

* This review is a revised and slightly expanded version of Hein (2020).

** Email: eckhard.hein@hwr-berlin.de.

Journal compilation © 2020 Edward Elgar Publishing Ltd
The Lypiatts, 15 Lansdown Road, Cheltenham, Glos GL50 2JA, UK
and The William Pratt House, 9 Dewey Court, Northampton MA 01060-3815, USA

by investment and consumption expenditures of capitalists, assuming workers not to save. For this model, Łaski derives the investment multiplier and shows how saving endogenously adjusts to investment through the variation in income, and he touches upon the 'paradox of saving' and the 'paradox of costs.' An increase in the propensity to save (out of wages or out of profits) will thus reduce aggregate income such that, with constant investment, aggregate saving will not increase. Falling nominal wages with constant prices, hence a fall in the wage share and a rise in the profit share, will not raise aggregate profits but rather will reduce aggregate income. Following Kalecki (1954: chs 8–9), Łaski explains why it is highly unlikely that current investment will rise as a response to an increase in unit profits and the profit share, because, first, current investment is a result of past investment decisions. Second, in the face of falling current income and demand, caused by a drop in the consumption demand of workers, current investment decisions are unlikely to rise, such that future investment is also unlikely to increase as a response to a current increase in the profit share. The possibility of 'profit-led' demand and growth, introduced by Bhaduri/Marglin's (1990) post-Kaleckian model, which has become so popular among heterodox macroeconomists and has triggered a large amount of further theoretical and, in particular, empirical work, is thus discarded.

The core model from chapter 4 is extended in chapter 5 by adding a government sector. First, Łaski highlights the role of governments in mitigating rising inequalities in market incomes, which itself would also contribute to stabilizing the macroeconomy, not to mention the associated political stabilization effects. Second, again following Kalecki (1954: ch. 3), he explains the role of government deficits for the realization of profits in general, and the automatic government budget balance adjustments as a cyclical stabilizer of aggregate demand in particular. Using a sectoral financial balance approach, he highlights why, in a closed economy, financial surpluses of the private sector are only possible with the counterpart financial deficits of the government sector. When it comes to stimulating the economy, Łaski, following Kalecki (1944), points out why expansionary fiscal policies should be favored over attempts at stimulating private investment, and he derives the respective government expenditure multipliers. Taking a long-run perspective, he also shows that a permanent government deficit is consistent with a stable government-debt–GDP ratio. Under the condition that the nominal rate of interest on government debt falls short of nominal GDP growth, even a primary deficit is possible, because new credit is then sufficient for interest payments on the accumulated stock of government debt. Finally, in this chapter, several orthodox myths regarding government deficit and debt are rejected: the notion that government deficits will create inflation, the idea of crowding out of private investment, the concept of 'twin deficits' (public and current account), the theory of 'expansionary contraction,' and finally the presumed superiority of a capital-funded pension system over a pay-as-you-go system.

In chapter 6, considering some open-economy issues and again applying Kalecki's (1954: ch. 3) profit equation, Łaski describes the role of net exports for the realization of aggregate profits and derives the export multiplier in comparison to the investment multiplier. He discusses the role of international price and non-price competitiveness for exports and net exports and assesses the dynamics of foreign indebtedness for current-account deficit countries. Although it can be shown that the foreign-debt–GDP ratio will converge towards a definite value with constant current-account deficits, and that with a nominal rate of interest lower than nominal GDP growth interest on foreign debt can be paid out of new foreign credit, Łaski warns against relying on foreign debt in order to finance development. And although foreign direct investment (FDI), different from foreign debt, is not linked to fixed services in foreign currency, he does not believe that FDI will automatically lift the balance-of-payments constraint on growth. Temporary and selective protectionism thus seems indispensable for catching-up countries.

In chapter 7, Łaski turns to monetary theory and largely follows Lavoie's (1992: ch. 4) presentation of post-Keynesian monetary circuit and endogenous money theory. From the monetary circuit perspective, loans are required for initially financing production and investment, creating income out of which the respective amount of saving for funding investment is then generated. In this macroeconomic sense, investment is thus always 'self-financing.' However, as soon as households decide to hold part of their saving liquid, firms' indebtedness with the banking sector will rise in step. Post-Keynesian endogenous money theory implies that loans create deposits, which then make reserves. Credit and money are thus endogenous, whereas the rate of interest is considered to be an exogenous variable for income generation and growth, largely under the control of the central bank. Based on these considerations, Łaski criticizes modern orthodox new consensus macroeconomics (NCM) based on the concept of a non-accelerating inflation rate of unemployment (NAIRU) and relying on inflation-targeting interest-rate policies by the central bank as the main policy instrument. Rather, he favors coordinated macroeconomic policies along post-Keynesian lines: Strong trade unions and employer associations should take care of nominal wage growth according to the sum of productivity growth and the inflation target, providing stable inflation and distribution. Central banks should support fiscal policies in aggregate demand management in order to establish full employment, keeping long-term interest rates below GDP growth, in particular, and acting as lender of last resort for the government. Furthermore, central banks should take care of financial stability, using tools other than the interest rate (that is, credit rationing, credit controls, etc.). What is missing in this chapter, however, is the presentation of a full post-Keynesian/Kaleckian macroeconomic model as an alternative to the NCM, as for instance suggested by Arestis (2013) or Hein/Stockhammer (2010), from which these policy implications can be consistently derived.

Chapter 8 briefly touches upon issues of economic growth and dynamics. Łaski follows Steindl (1979), pointing out the problem of demand generation in a growth context. He also briefly outlines Harrod's (1939) problem of potential dynamic instability. Finally, he turns to Kalecki's (1937) approach to cyclical fluctuations, mainly relying on temporary divergences of income and capacity effects of investment, around a trend which is given by innovations and negatively affected by rentiers' saving. However, these contributions are not linked to each other, and Łaski does not enter into or refer to the modern debates on Harrodian instability in Kaleckian/Steindlian distribution and growth models (Hein et al. 2011; 2012).

In chapter 9 the author applies his basic Kaleckian approach to the capitalist development after World War II, using some data on income distribution, GDP growth, unemployment, and sectoral financial balances of the private, the government, and the external sector in order to distinguish the golden-age period of the 1950s and 1960s from the period which has led to the global financial and economic crisis 2007–2009. He explains that against the background of falling wage shares and rising inequality since the 1980s, two unsustainable growth models have been derived. One was based on credit-financed consumption and thus on private household debt, the other on export surpluses and thus on foreign debt, and he concludes that neither has been sustainable. From this it follows that inequality is the key issue to be resolved for economic – and also for political and social – stability; a view to which I can fully subscribe.

I can also fully support Łaski's final conclusion that in the current academic environment dominated by orthodox approaches 'it is so vital to familiarize students of economics with alternative schools of thought and equip them with the ability to think critically' (Łaski 2019: 185). Łaski has greatly succeeded in providing a detailed and comprehensive introduction to the Kaleckian macroeconomic approach, as Osiatyński also points out in his introduction: 'Its clarity and pedagogical rigor of argument assist in understanding Kalecki's theory at its basic and intermediate level' (ibid.: xxiv). The book bears some similarities to Bhaduri's (1986) *Macroeconomics: The Dynamics of Commodity Production*, to which Łaski refers several times. However, apart from addressing up-to-date issues, Łaski's book provides a more elementary introduction with a clear policy focus. The book was not designed to deal with modern developments of heterodox or post-Keynesian macroeconomics in the Kaleckian/Steindlian tradition. For those, the interested reader, lecturer, and student should look at the respective chapters in Blecker/Setterfield (2019), Hein (2014), or Lavoie (2014). But Łaski's book is an excellent introduction to the Kaleckian approach and its current relevance, which can and should be used at the undergraduate level. I hope it will find a wide readership and reception, and will also keep our memories of this great Kaleckian economist alive. I will put the book on the main reading list of my undergraduate macro classes.

REFERENCES

Arestis, P. (2013): Economic theory and policy: a coherent post-Keynesian approach, in: *European Journal of Economics and Economic Policies: Intervention*, 10(2), 243–255.

Bhaduri, A. (1986): *Macroeconomics: The Dynamics of Commodity Production*, Basingstoke and London, UK: Macmillan.

Bhaduri, A., Marglin, S. (1990): Unemployment and the real wage: the economic basis for contesting political ideologies, in: *Cambridge Journal of Economics*, 14, 375–393.

Blecker, R., Setterfield, M. (2019): *Heterodox Macroeconomics: Models of Demand, Distribution and Growth*, Cheltenham, UK and Northampton, MA: Edward Elgar Publishing.

Harrod, R.F. (1939): An essay in dynamic theory, in: *The Economic Journal*, 49, 14–33.

Hein, E. (2014): *Distribution and Growth After Keynes: A Post-Keynesian Guide*, Cheltenham, UK and Northampton, MA: Edward Elgar Publishing.

Hein, E. (2020): Review of Kazimierz Łaski: *Lectures in Macroeconomics: A Capitalist Economy Without Unemployment*, edited by Jerzy Osiatynski and Jan Toporowski (Oxford University Press, 2019, 192 pages), in: *Ekonomista*, 3, 495–498.

Hein, E., Stockhammer, E. (2010): Macroeconomic policy mix, employment and inflation in a post-Keynesian alternative to the New Consensus Model, in: *Review of Political Economy*, 22, 317–354.

Hein, E., Lavoie, M., van Treeck, T. (2011): Some instability puzzles in Kaleckian models of growth and distribution: a critical survey, in: *Cambridge Journal of Economics*, 35, 587–612.

Hein, E., Lavoie, M., van Treeck, T. (2012): Harrodian instability and the 'normal rate' of capacity utilisation in Kaleckian models of distribution and growth: a survey, in: *Metroeconomica*, 63, 139–169.

Hein, E., Riese, M., Schütz, B. (eds) (2019): Special issue: The Economics of Kasimierz Laski, in: *European Journal of Economics and Economic Policies: Intervention*, 16(3), 287–419.

Kalecki, M. (1937 [1990]): A theory of the business cycle, in: Osiatynski, J. (ed.), *Collected Works of Michał Kalecki, Vol. I, Capitalism: Business Cycles and Full Employment*, Oxford: Clarendon Press, 298–318.

Kalecki M. (1944): Three ways to full employment, in: Oxford University Institute of Statistics (ed.), *The Economics of Full Employment*, Oxford: Basil Blackwell (reprinted in: J. Osiatynski (ed.) (1990), *Collected Works of Michał Kalecki, Vol. I, Capitalism: Business Cycles and Full Employment*, Oxford: Clarendon Press, 357–376).

Kalecki, M. (1954): *Theory of Economic Dynamics*, London: Allen and Unwin.

Łaski, K. (2019): *Lectures in Macroeconomics: A Capitalist Economy Without Unemployment*, Osiatyński, J., Toporowski, J. (eds), Oxford and New York: Oxford University Press.

Lavoie, M. (1992): *Foundations of Post-Keynesian Economic Analysis*, Aldershot, UK and Brookfield, VT: Edward Elgar Publishing.
Lavoie, M. (2014): *Post-Keynesian Economics: New Foundations*, Cheltenham, UK and Northampton, MA: Edward Elgar Publishing.
Riese, M. (2016): Obituary: Kazimierz Łaski (1921–2015), in: *European Journal of Economics and Economic Policies: Intervention*, 13(3), 265–274.
Steindl, J. (1979): Stagnation theory and stagnation policy, in: *Cambridge Journal of Economics*, 3, 1–14.