

Review of Marc Lavoie, *Post-Keynesian Economics, New Foundations*, Cheltenham: Edward Elgar, 2014, pp. 660.

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I am delighted to have been invited to present a discussion of Marc Lavoie's *Post-Keynesian Economics, New Foundations* today. I was contemplating to whether to give my short review, "it's a brilliant book, you must buy it" or my longer and more considered review "it's a brilliant book, you must buy it and I wish I had written it"!

However, I fear I must justify these conclusions a little more, but I hope you will excuse me if I use this opportunity to range a little more widely than is usual in a book review to reflect on the state and future of Post-Keynesian economics.

Economists, certainly neoclassical economists, never pay much, if any attention, to economic methodologists except to the extent they may have read, in passing, Milton Friedman's classic, but misleading, "Essay in Positive Economics". This reassures them no matter how absurd, or unrealistic, the assumptions of their models, they represent an advance in the subject so long as the models are not refuted by empirical testing. Of course, the latter qualification that they need to pass empirical testing is often implicitly interpreted as "sometime in the unspecified future", or is overlooked altogether.

But perhaps we should not be surprised that economic methodologists, in effect, write solely for each other, because this is certainly true of the physical sciences. There are no courses in the philosophy of science in the core natural science disciplines at, say, the University of Cambridge. This is not surprising because as Thomas Kuhn (1962), many years ago in the *Structure of Scientific Revolutions*, convincingly argued, students of an academic discipline learn the correct way of analyzing a problem, and indeed what constitutes a legitimate research topic, by ostentation or tacit knowledge. This is based on the prevailing paradigm (or disciplinary matrix, I should perhaps say).

Kuhn's approach, now broadened into what may be broadly called the sociology of knowledge, stresses the great importance role of the textbook as the key to the

perpetuation of a paradigm. The student, and future researcher, acquires an understanding of his subject through the acquisition of knowledge in the textbooks and the undertaking and answering, or solving, the questions usually at the back of the chapters. He (or she) is confident that as these Kuhnian puzzles are based on the consensus on the subject. The latter cannot be wrong or challenged, even if the student is of an enquiring mind.

As Kuhn (1970, p.47) emphasises:

That process of learning by finger exercise or by doing continues throughout the process of professional initiation. As the student proceeds from his freshman course to and through his doctoral dissertation, the problems assigned to him become more complex and less completely precedented. But they continue to be closely modeled on previous achievements as are the problems that normally occupy him during his subsequent independent career.

He continues:

Though many scientists talk easily and well about the particular individual hypotheses that underlie a piece of current research. They are little better than layman at characterizing the established basis of their field, its legitimate problems and their methods.

The challenges thrown up by the subprime crisis to the macroeconomics profession certainly confirms this last statement. Let me give you an example of the first statement. In Chapter 7 of Mankiw's popular, and ubiquitous, macroeconomics textbook, we find two chapters on a simplified version of the Solow model, in all its glory. At the end of the chapter are questions starting with the aggregate production function and asking the student to work out what happens if certain variables change value, such as to the steady state solution. There is no discussion in the chapter as to the shortcomings of the aggregate production function or a question as to how empirically relevant it is. This absence, *per se*, is damaging to the development of the subject since the omission implies that the critique of the aggregate production function, should the economist stumble across, it cannot be important: after all if it was it would be mentioned in the textbooks.

Hence, at last, I come to Marc Lavoie's excellent and comprehensive textbook on post Keynesian economics and its importance as a textbook to Post Keynesian economics cannot be overstated. It is an important update and extension of his previous book written in 1992. Consequently, so much of what I say refers in a way to both books,

although I shall naturally focus on the 2014 volume. This book of 660 pages is extremely important in many respects. It is at the moment the definitive advanced synthesis of the many strands of post-Keynesian economics. This is not to say that there are not many other excellent more introductory Post-Keynesian economics textbooks.

But to my mind, the greatest significance of this work is that it clearly demonstrates that there is a coherent and interrelated body of economic theory that stands in marked contrast to the neoclassical framework. Indeed, with the deficiencies of the prevailing orthodoxy exposed by the subprime crisis the publication of this book could not have come at a more propitious time. Some post-Keynesians have concentrated on attacking the foundations of the neoclassical paradigm (the problems of the measurement of capital, the deficiencies of the aggregate production function, the problems of methodological individualism, the distinction between uncertainty and risk) to such an extent that it could (and has been) unfairly accused of nihilism.

But as Kuhn has pointed out, a paradigm can only be overthrown by the development of a new paradigm and Marc's book shows that there is a substantial corpus of Post Keynesian that meets this criterion. Criticisms of a paradigm is not enough to cause a change in the world view of the practioners.

Of course this is not the first non-orthodox economics textbook. In 1973, John Eatwell and Joan Robinson's published their *Introduction to Macroeconomics*, which was to be a major alternative to the prevailing neoclassical textbooks at that time. Why was the volume not a success? The timing could not have been better. The 1970s was a time when the orthodox neoclassical approach was being so heavily criticized from all quarters that it seemed as if it was not likely to survive. (Ringing any bells?) See Leontief, (1971), Ward (1972), Worswick, (1972), and Robinson (1972). The phrase "paradigmatic crisis" was often heard at this time. The main thrust of these critiques was the familiar criticism that economics was becoming too formalised and divorced from real world problems.

King and Millmow (2003, p. 1230), fairly summarise the reasons for the failure as follows:

A common thread running through all the reviews was that the book was too difficult for beginners in economics. Apart from bemoaning the

polemical bent of the text, both Terence Hutchison (1976) and Jonathan Baldry (1974) assailed the book's pedagogic worth by drawing attention to the divorce between theory and real-world applications. Hutchison argued that the analytical core of the book generated few empirical testable theories. Baldry (1974, 396), for his part, took issue with the misrepresentation of neoclassical theory and its replacement with a grand Ricardian model, which left it the "least worldly of textbooks" he had ever seen. He had a point. Nearly one-third of the economic analysis section of the book, for instance, was conducted in terms of a two-sector economy producing steel and corn with the *numéraire* in corn prices. It was likely to test the powers of abstraction, indeed patience, of even the brightest student.

Then there was Wynne Godley and Francis Cripps (1983) book *Macroeconomics* which unfortunately made hardly a ripple on the subject. Why? It was original, challenged the orthodoxy and presented a Keynesian view of the subject. However, it had few if any links to orthodox macroeconomics whether it be the IS/LM model or the AD/AS model, notwithstanding their faults. It was this, I think, that severely limited its pedagogical impact.

This rather long preamble about the importance of textbooks brings me at last to the main purpose of my talk, a review of Marc's book. What does it set out to do and does it succeed? I must first confess, I have not (and I had better add the word, yet) read the book from cover to cover. After all, I did only receive it a few days before the start of the new academic year. But I am reminded of Sydney Smith's dictum who said "I never read a book before reviewing it, it prejudices a man so".

*New Foundations* is addressed to those with a good training in economics, namely Masters students and PhD students working in heterodox economics (and dare I say Post Keynesian scholars in general) who want a concise and well written overview of all aspects of Post Keynesian economics. It has the virtue of distilling often very complex arguments into a clear discussion of the essentials. There are many examples I could give from the book, but I will content myself to mentioning three examples from the beginning of the book, the Cambridge Capital theories, the Sonnenschein-Mantel-Debreu theorem and problems of the aggregate production function. If you want a quick, yet thorough, understanding of these complex issues, this book is for you. But it is not merely an explicit critique of neoclassical economics, as it focuses on the more

constructive contributions of Post Keynesian economics. The links of the analysis to mainstream arguments are there in order to set the post-Keynesian contributions in context, but its importance firmly relates to the latter.

It is traditional in book reviews to say something about the content, but given time constraints I shall be eclectic. The book starts with a discussion of what post-Keynesian economics is and why it deserves to be treated as a separate paradigm. I think if post-Keynesians have a fault, it is too much time is wasted over discussing what is and what is not post-Keynesian economics. Can we should now simply read Chapter 1 “*Essentials of Heterodox and Post-Keynesian Economics*” and been done with it. The book then shows that Post-Keynesian economics is not simply post Keynesian *macroeconomics* by discuss choice theory (and is far from a repetition of neoclassical theory consumer theory, discussing *inter alia* bounded rationality, uncertainty and behavioral economics) and the theory of the firm, again grounded in the reality of the objectives of the firm and mark-up pricing. One of the major areas that the sub-prime crisis has exposed the short comings of what has come to be known as the New Neoclassical Synthesis is its treatment (or perhaps non treatment)of the banking system. This is also where Post Keynesians have made a notable contribution and there can be no better of exposition of these issues in Chapter 4 “Credit, Money and Central Banks”. The other chapters cover, as you would expect, short-term macroeconomics (effective demand etc), growth and the open economy. Inflationary theory, now not so pressing as a couple of decades ago, is also covered.

Chapter 5 turns to the short run determination of the level of demand and the level of employment drawing on post-Keynesian and Kaleckian versions of the labour market. It starts with the contention that for post-Keynesians labour markets do not exist. That should grab the student’s attention! There is no well demand for labour as in the simplistic marginal productivity theory of factor pricing. There are questions of norms and fairness as well. When one reads this chapter, it becomes clear how simplistic the conventional IS/LM and the related AS/AD models from the standard textbooks are. The chapter on accumulation and capital provides a coherent alternative to the Solow augmented growth model or the endogenous growth models. Again the richness of the alternative approach is readily seen. The chapter on the open economy model has some

overlap with the traditional Mundell-Fleming model but again the diversity of the Post Keynesian approach can be seen.

It is worth re-emphasizing that one of the great successes of this book is that it takes many important contributions of the Post Keynesians which may otherwise have been lost buried in the journals and integrates them into a coherent story; in a very real sense the sum of this work is greater than the parts.

Let me now turn some other issues, lest I be accused of hagiography. An implication of Kuhn for us is that it is important that the next generation of economics students is exposed to the ideas of post-Keynesians especially at the undergraduate level. (As the Jesuits say “give me a child before the age of seven and I’ll show you the man”.) The problem is that in the vast majority of economics courses are dominated by the traditional textbooks and even in my university the examinations are based on solving puzzles based on these textbooks.

The problem is that while I could see myself using parts of the textbook, it is too comprehensive and requires too much background knowledge to be used comprehensively at the undergraduate level. But of course, there was never Marc’s intention. So what is the answer? I’m sorry Marc, but I think the next step for you is to update the *Introduction to Post Keynesian Economics* to make the *New Foundations* accessible to third year undergraduates and is short enough to give a quick overview and to appear on undergraduate reading lists.

The second point is the need to bring together or synthesize the major *applied* contributions of the post-Keynesians to the policy debates. There is more a textbook about *theory*. I was heavily influenced by Kaldor’s essentially inductive approach towards economics (as epitomized by his stylized facts). Thus I think there is a case for an applied undergraduate textbook interpreting current (macro) economic problems from a post-Keynesian view point.

Whatever one may think of the intellectual arguments of the modern undergraduate economics textbooks, they have been improved by incorporating case studies (often in

inset boxes). *New Foundations* does of course refer to the empirical literature where appropriate, but it is at an advanced level.

In the concluding section, Marc has a brief discussion of the future of post Keynesian economics. Let me conclude by posing the unattractive question: is *Foundations* the “Swan Song” of Post Keynesian economics? Marc is optimistic, I am not. All UK university departments are subject to a five or six year rankings that are largely determined by their research outputs. While the assessment panels are instructed to rate the research on its intrinsic merits, of course, given the vast volume of material they go by “rankings” of journals. In economics, the putative top or A-rated journals are all, perhaps not surprisingly, mainstream neoclassical journals. (This is notwithstanding Fred Lee’s alternative classification.) Books and book chapters are given zero weighting. The only non mainstream journal that enters into this list is the idiosyncratic *Cambridge Journal of Economics*. I say the current list is “arbitrary” because another methodology of ranking by Fred Lee *et al* gives much greater weight to the heterodox journals, several of which are now ranked as A quality.

But the situation is such that any young economists wishing to publish in heterodox economics does so at considerable risk to his or her own career in terms of tenure and promotion and the pernicious influence of the A list has spread to the continent. Maybe I am too pessimistic. (I think I tend to be a “glass half empty rather than half full” person). There are a few, but too few, departments where heterodox (and I deliberately use the broader term) are flourishing, with the support of their universities. The recent manifesto by the students at the University of Manchester have shown the dissatisfaction of many students with much of orthodox economics. But whether this will have a major impact on the economics profession, beyond lip service remains to be seen. The treatment of Lord Skidelsky’s committee into the future of economics teaching is not reassuring. The sociology of knowledge shows the strength of entrenched academic ideas.

Anyway, I have departed too far from my brief which is to review *Foundations*. Let me conclude my saying it is a book every economist should have on his (or her) shelf, placed within easy reach.

The only think that worries me comes from that basic economic concept, the price elasticity of demand. The book costs £125. A cheaper paperback is urgently needed.