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## Article

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*Special Issue*  
**Current relevance and perspectives of  
Keynesian Economics**

**Editorial to the Special Issue**

*Eckhard Hein\**, *Torsten Niechoj\*\** and *Achim Truger\*\**

The world economy is presently suffering from the most severe economic crisis since the Great Depression in the early 1930s. As by now seems to be obvious, the present financial crisis, massive state intervention in the financial markets in order to prevent a melt-down, and fiscal stimulus packages inconceivable even several months ago, mark the failure of an economic policy agenda which might be called 'neo-Liberalism'.<sup>1</sup> This agenda, broadly speaking, focussed on the deregulation of financial, labour and goods markets and on minimising state intervention. It meant a massive redistribution of income and wealth at the expense of labour and ordinary households, increasing imbalances on the global level and rising financial fragility. The failure of this policy agenda is also a failure of mainstream economic theory which has supported it. In particular those theories which are based on the confidence and firm belief that free markets will be stable and generate a full employment equilibrium – at least in the long run – and that the only role left for macroeconomic policies, in particular monetary policies, is to facilitate and accelerate the adjustment process towards this equilibrium, as for example in the dominating New Consensus Model (NCM), have failed.

The firm belief in the stability of a free market monetary production economy is not only theoretically unconvincing, as Keynes, Kalecki, Robinson and other post-Keynesians have claimed for many decades. It is now – again – obvious that economic policy programmes based on this view might lead into disaster. The question then is: Where do we go from here? In the first place, this is a question of how economic policies should deal with the financial crisis and economic recession in the short run, and which should be the regulations and in-

<sup>1</sup> For in depth analysis of the macroeconomics of finance-led capitalism see the contributions in Hein et al. (2008).

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stitutions to be established in order to reduce the probability of such a crisis to occur again in the medium to long run. In the second place, however, the questions are: What are the consequences for economic theory? Will the mainstream view on the economy survive – with only minor revisions? Is there any potential within mainstream economics which will transform the 'free market view' and the economic policy implications? Since the present situation obviously is an opportunity for (post-)Keynesian and other heterodox approaches, are these schools well equipped and ready to tackle these problems? How can they have an impact, both on economic policies and on the future development of macroeconomics? And which are the main areas in which these schools can contribute to our understanding of the economy, the present crisis and the appropriate economic policy reactions?

The 12<sup>th</sup> conference of the Research Network Macroeconomics and Macroeconomic Policies (FMM) on 'Macroeconomic Policies on Shaky Foundations – Whither Mainstream Economics?', which took place in Berlin, 31<sup>st</sup> October – 1<sup>st</sup> November 2008, addressed these issues from a variety of perspectives. This special issue contains revised versions of five conference contributions which focus on the current relevance and on the perspectives of Keynesian economics, in particular.

The first contribution takes issue with the theoretical core of the NCM: *Hans-Michael Trautwein* and *Abdallah Zouache* discuss the role of the natural rate of interest in the New Synthesis, as they call it. They conclude that New Keynesian policy rules do not necessarily yield results superior to those of 'Old Keynesian' strategies of output stabilisation, and that the use of natural-rate concepts in the New Synthesis disregards essential problems that were identified in the older Wicksellian and Keynesian literature. The second paper by *Engelbert Stockhammer* and *Paul Ramskogler* focuses on the future development of post-Keynesian economics – as alternative to the NCM. They argue that post-Keynesian economics has generated valuable insights on core areas, such as monetary macroeconomics and medium-term growth theory. However, in their view it offers little on important real world phenomena like the globalisation of production and social issues like precarisation and the polarization of income distribution or ecological challenges like climate change. They hold that it is these issues that will decide the future of post-Keynesian economics. The following three papers apply Keynesian analysis in a wider sense to different economic policy areas. *Mathieu Charpe*, *Peter Flaschel*, *Christian Proaño* and *Willi Semmler* develop a Minskyan model on overconsumption, credit rationing and bailout monetary policies. *Jerry Courvisanos*, *Anthony J. Laramie* and *Douglas Mair* use a Kaleckian model in search for common ground for post-Keynesians and New Keynesians on the issue of tax policies and innovations. Finally, *Gennaro Zezza* focuses on fiscal policies and the economics of financial balances.

Further contributions to the conference covering a broader area of research can be found in Hein et al. (2009). We would like to thank the contributors to this special issue and the referees for their cooperation. Special thanks go to Sebastian Türk for the assistance in the editing process, and to the Hans Boeckler Foundation for organisational and financial support for both the conference and this publication.

*References*

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