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Book Review

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Book review of Hein, Eckhard: *Macroeconomics After Kalecki and Keynes:* *Post-Keynesian Foundations*

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Eckhard Hein has had a prolific career, with contributions to post-Keynesian economics (PKE, from now on) spanning almost three decades already. The gist of his work is present in his most recent book, which adds to a recent but growing body of textbooks on post-Keynesian and heterodox macroeconomics. In that list one can mention Foley, Michl and Tavani (2019), Blecker/Setterfield (2019), Rochon/Rossi (2021), Lavoie (2022), Skott (2023), among others. Hein made his own contribution some years ago (Hein 2014). So what is the motivation for another post-Keynesian textbook? Hein (accurately) identified a gap in this literature: ‘none of them provides a comprehensive and teachable post-Keynesian macroeconomic model’ (Hein 2023: ix). And he delivers accordingly. The book builds this model chapter by chapter, and then uses this model and some of its extensions to analyze major phenomena in modern capitalism, such as macroeconomic regimes, ecological challenges and gender wage gaps. These building blocks, the extensions and the applications are supported, as Hein notices, by his previous works, alone or with co-authors.

Chapter 1 presents the structure of the book, describing the main arguments of each chapter. Chapter 2 provides a brief introduction to PKE. It describes its chronological evolution from the times of Kalecki and Keynes in the 1930s; the ups and downs it experienced; and the current consolidation in terms of journals, textbooks, and institutional infrastructure. The chapter presents as well the different strands of PKE, emphasizing the commonalities and shared presuppositions. It also locates PKE within a broader umbrella of heterodox economics. The epistemological rejection of instrumentalism in favor of realism, the adoption of a different criteria for rationality, the preference for holism instead of methodological instrumentalism, and the focus on production and growth instead of allocation and scarcity, are all shared belief of heterodox economics.

Chapter 3 is an ambitious undertaking. It presents the basic postulates of the rejection of Say’s Law by Marx, Kalecki and Keynes. The point of departure chosen by Hein lies in the theory of money, credit and effective demand of these three authors. Without omitting criticisms, one major building block for the comparison is the scheme of expanded reproduction of Marx, later adopted by Kalecki, and the relation to the theory of the monetary circuit. The theory of money and the schemes of expanded reproduction provide the basis for the rejection of Say’s Law and the emphasis on the principle of effective demand. They also call for a theory of endogenous money, and Hein brings back the analyses of Marx and Kalecki on credit creating and investment financing. Keynes gives a

greater role for fundamental uncertainty and liquidity preference in his rejection of Say's Law. However, the importance of endogenous money is present in many of his writings as well, such as in the *Treatise on Money* (Keynes 1930) and in Keynes (1937). Afterwards, Hein presents and develops the basic postulates of the Theory of the Monetary Circuit (Graziani 2003), which links finance and production from the bottom up. This chapter, in sum, provides the conceptual underpinnings for the development of the models in the chapters to come: endogenous money, investment and effective demand.

Chapter 4 presents a macroeconomic model with fixed prices. Hein has a very simple and pedagogical way of presenting the gist of the model. The effect of changes in parameters on the equilibrium values of income, investment and distribution is clearly described along each expansion of the model, when adding a government sector, when opening the economy (for trade) or when discussing wage inequality (i.e., more than one type of worker). With that model in hand, Hein is able to discuss the impact of gender wage gaps on investment and international competitiveness. The likelihood of a paradox of saving or gender equality-led growth regime is contextualized according to the propensities to consume and save, and the impact on price-competitiveness.

Chapter 5 presents a contentious approach to inflation. PKE conceives inflation as a result of distributive conflict in the economy. Hein stays within that approach. However, there are two sides within PKE on how to approach this debate from a modelling point of view. The point of departure is Joan Robinson's 'inflation barrier' (Robinson 1956), an unemployment level below which inflation will start increasing. There are authors like Lavoie (2022: ch. 8) or Blecker/Setterfield (2019: ch. 5) whose models can accommodate stable inflation at any rate of unemployment. In that regard, there is basically no Robinsonian inflation barrier. Hein adopts an alternative approach, in which there is only one employment level with constant inflation (SIRE, or 'stable inflation rate of unemployment'). Though it may be sound akin to the mainstream NAIRU, there are substantial differences between the SIRE and the NAIRU, as Hein emphasizes: the SIRE is not an attractor of actual employment levels. On the contrary: in the medium to long run, the SIRE is endogenous to aggregate demand. One consequence of this model is that monetary policy is not the correct tool to stabilize inflation at high employment levels. In a coordinated macroeconomic policy mix, that role should be mainly taken over by incomes policy and by public expenditure policy. As is characteristic from Hein, the chapter also explores further extensions of the model, such as an unstable interaction between inflation and the labor market; the differentiated role of tax policies; differences between expected and unexpected inflation; and open-economy considerations.

Chapter 6 presents a post-Keynesian coordinated macroeconomic policy mix, looking mainly at the short-run. The most important aspect of this proposal is precisely in the title: a *coordinated macroeconomic policy mix*. Coordination is key, no clear-cut assignment of a specific instrument to a specific target (full employment, stable inflation, equitable income and wealth distribution, international balance and financial stability). Furthermore, the policy mix calls for the adoption of more instruments than usually considered in the New Consensus Models (NCMs). For instance, while interest rates are not considered fit to fine-tune the economy and fight inflation, there is a role for monetary policies such as credit standards and credit controls in the quest for financial stability. The central bank is also in charge of guaranteeing government debt in the face of financial market stress. Inflation fight is best left over to wage and income policies and fiscal policy, also with an eye for income inequality. It is advised to have a stable (but not fixed) exchange rate, in order to prevent destabilizing effects of capital flows. International cooperation is encouraged, but admittedly not likely, particularly in what refers to the international monetary system.

Chapter 7, in turn, presents a quick detour through growth theories: classical, neoclassical (old and new), post-Keynesian growth models *à la* Cambridge, post-Keynesian

growth models *à la* Kalecki–Steindl, and Sraffian supermultiplier models. He uses a simple framework for comparison, adopting different closures to capture the key implications of each approach. The presentation of each theory is accompanied by two pedagogical tools: a clear table with the endogenous variable and the impact of changes in each exogenous variable; and a clear two-sided graph with the profit rate on the vertical axis, the growth rate on the horizontal RHS axis, and a third variable (the capital–output ratio, the profit share or the utilization rate, according to each closure) on the LHS horizontal axis. The chapter ends with a brief discussion of the determinants of labor productivity growth, particularly through a Kaldor–Verdoorn effect, and a ‘Marx’ (or ‘Webb’) effect, by which increases in the wage share (and a fall in the profit share) stimulate productivity growth.

These long-run extensions are used to discuss macroeconomic demand and growth regimes (DGRs), in Chapter 8. It was this gap that Hein identified and sought to fill, and he does it neatly and convincingly. DGRs are analyzed via two indicators. First, one analyzes the financial balance of the public, private and external sector. Then, one analyzes the main sources of GDP dynamics (private and public consumption, investment and net exports). Therefore, one can observe the demand sources and the financing of these sources. This chapter, the best and most important of the book in my view, sums up the lasting contribution to this topic, as shown by all the references included in the chapter. It has four main sections (besides the Introduction). Section 2 presents the four DGRs that arise out of the interaction of the demand and financing dynamics. Section 3 presents the results of empirical characterization of DGRs in several articles, many of them co-authored by Hein himself. Section 4 uses the Kaleckian model presented in Chapter 7 to describe two opposing DGRs (the export-led mercantilist – ELM – regime and the debt-led private demand – DLPD). The model is useful for capturing the shifts in DGRs before and after the global financial crisis (GFC) in 2008, which left a structural change in macroeconomic regimes in advanced economies. And within the best chapter in the book, Section 5 is the best – it shows the relation between the macroeconomic demand and growth *regimes* and the macroeconomic *policy*, using the policy mix presented in Chapter 6 as a guide. These two types of regimes are used to analyze the evolution of the four main eurozone economies (Germany, France, Italy and Spain) before and after the GFC. This section is the hallmark of the book, identifying and characterizing a truly *stagnation policy* adopted by European authorities.

Chapter 9 discusses the macroeconomic challenges of adopting a de-growth economic strategy to deal with the ecological constraints. Finally, Chapter 10 tackles present challenges and provides strategies for a better future of PKE.

In sum, Hein has made a very valuable contribution to the teaching of post-Keynesian macroeconomics. The book is very clear, readable and well structured. It is recommended for professors, students, and whomever wants to further explore the potential of PKE in general, and post-Keynesian macroeconomics in particular.

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