Jahangir, Junaid B.

Book Review

Book review of Jefferson, Therese and King, John E.: Post Keynesian Economics: Key Debates and Contending Perspectives

European Journal of Economics and Economic Policies: Intervention (EJEEP)

Provided in Cooperation with:
Edward Elgar Publishing

Suggested Citation: Jahangir, Junaid B. (2025) : Book review of Jefferson, Therese and King, John E.: Post Keynesian Economics: Key Debates and Contending Perspectives, European Journal of Economics and Economic Policies: Intervention (EJEEP), ISSN 2052-7772, Edward Elgar Publishing, Cheltenham, Vol. 22, Iss. 3, pp. 484-487,
https://doi.org/10.4337/ejeep.2025.0154

European Journal of Economics and Economic Policies: Intervention, Vol. 22 No. 3, 2025, pp. 484–487
First published online: April 2025; doi: 10.4337/ejeep.2025.0154

Book review of Jefferson, Therese and King, John E.: *Post Keynesian Economics: Key Debates and Contending Perspectives*

Cheltenham, UK and Northampton, MA, USA, 2024 (246 pages, Edward Elgar Publishing, hardcover, ISBN: 978-1-80392-222-5)

Junaid B. Jahangir*
MacEwan University, Canada

De Muijnck and Tieleman (2021) argue that mainstream economics education does not help tackle challenges like climate change and inequality. Therefore, they suggest shifting the emphasis from mathematical technicalities to teaching based on real-world issues and pluralism. They state that pluralism is based on contrasting differing perspectives, a point made earlier by Mearman (2017) through contending perspectives. Similarly, in his manifesto on a new economics, Keen (2022, p. 151) argues that the most important alternatives to mainstream economics education include Post Keynesian economics and Modern Monetary Theory (MMT). Thus, topics of ecology and inequality, contending perspectives, and MMT and Post Keynesian economics, all drew me to the volume edited by Jefferson and King.

As an educator, I recognize that many heterodox economists have adopted popular books in their teaching (de Muijnck et al. 2023). I too have incorporated popular books like Kelton (2021) on MMT, Hickel (2021) on degrowth and Piketty (2021) on inequality. However, the chapters in Jefferson and King by distinguished experts provide contrasting perspectives that enrich the classroom beyond the narrative of popular books. While the edited collection highlights several topics, my review focuses on chapters that, respectively, highlight the topical issues of MMT, the Green New Deal (GND) and inequality.

According to the chapter by Armstrong, MMT rejects the mainstream view that money arose to address inefficiency in the barter system. Instead, the government spends money to obtain goods and services from the private sector and creates a tax liability to create demand for that money. According to MMT, budget deficits provide the money for private sector saving. This is reflective of Godley's sectoral balance identity. Moreover, MMT rejects self-imposed rules like debt ceilings and the prohibition of selling public sector debt directly to the central bank. The latter affirms the MMT view of a consolidated government and central bank.

MMT rejects the mainstream view that banks funnel deposits to loans and instead suggests that loans create deposits. Similarly, MMT rejects the quantity theory of money that inflation is the result of printing too much money. Instead, the price level is determined by the prices paid by the government. Additionally, MMT emphasizes the role of

* Email: binjahangirj@macewan.ca.

oligopoly market power, asset prices and supply chain bottlenecks to explain inflation. On combating inflation, MMT rejects monetary policy and suggests that contractionary monetary policy is in fact expansionary, as higher interest rates add interest income to the economy given that government debt is private sector saving. Instead, MMT supports tackling oligopoly power by price controls and improving supply chain flexibility. Moreover, it supports a job guarantee (JG), which achieves both price stability and full employment.

On trade, MMT recognizes exports as the cost of acquiring imports and that current account deficit allows foreigners to invest in financial assets. However, it also recognizes that developing countries may be unable to export sufficiently to import food and energy and, therefore, may incur foreign currency debt. Thus, MMT advocates the transfer of resources from the Global North to the Global South. While the MMT view on trade is like that of Friedman that exports are the costs of trade, it remains heterodox on the transfer of resources to developing countries that are mired in foreign currency debt. Overall, the chapter by Armstrong provides a concise MMT primer on how it contrasts with mainstream economics on the origin of money, budget deficits, inflation and free trade.

According to the chapter by Lavoie, MMT rejects the household analogy to suggest that a sovereign currency issuing government with a flexible exchange rate and without foreign currency debt is not financially constrained. It rejects the crowding out effect, as interest rates have been kept close to zero despite huge budget deficits through the 2008 financial crisis and the COVID pandemic. Moreover, contrary to the loanable funds market model, MMT shows that budget deficits lower the interest rate. Through a JG, MMT supports a spatial countercyclical policy, as it focuses on job creation where it is needed. Additionally, MMT rejects the mainstream emphasis on sound finance and instead supports the functional finance approach with emphasis on price stability and full employment.

However, the chapter also takes a critical approach to MMT. The issue is that several post-Keynesians reject the consolidation of the government and the central bank, as projected in Kelton (2021). Based on Lavoie, the STAB (spending before taxes and borrowing) model is akin to the Keynesian view that investment precedes saving. However, he argues that it is misleading to argue that the government does not need taxes or borrowing to spend, as it needs to access funds from financial institutions. Additionally, governments can default if financial institutions reject government bonds. Similarly, floating exchange rates do not help when budget deficits cause trade deficits and consequently depreciation, inflation, low real wages and recession.

Lavoie critiques that the MMT view that currency only has value because it is used to pay taxes ignores the issue of confidence in currency, the MMT prescription to set the overnight interest rate at zero ignores the issues of financial instability and asset inflation, the MMT solution of JG ignores the issue that it would eliminate well-paid unionized jobs, and the MMT idea that JG would achieve price stability and full employment ignores the issue when inflation is caused by depreciation and import costs. Overall, the chapter acknowledges the merit of MMT in challenging mainstream views on the household analogy, crowding out effect and sound finance. However, it critiques MMT on the STAB model, government default despite sovereign currency, and the issues with floating exchange rates, zero overnight interest rate and JG. In doing so, it helps facilitate the contending perspectives approach in the classroom.

According to the chapter by Perry, the GND may increase or decrease carbon emissions. This is based on whether absolute decoupling of the economy from material and energy throughput can be achieved, or only relative decoupling is achieved where economic growth outstrips environmental efficiency. Therefore, ecological economics critiques the mainstream approach of carbon pricing, as it only yields relative decoupling.

Instead, it promotes a degrowth or post-growth economy to achieve absolute decoupling by reducing consumption per person, inequality and population growth.

GND proponents argue for financing the GND through taxes on polluters, reduced subsidies for polluters and shifting spending from defence. The latter is based on the argument that spending on arresting climate change is a pre-emptive defence spending against wars and mass migration instigated by climate change. To this set of policies, I would add higher taxes on the upper income classes, corporate taxes and financial transaction tax, based on the chapter by Harris. However, despite such initiatives, GND can be construed as a form of 'greenwashing', i.e., tokenistic environmental actions, if carbon emissions increase despite the GND. Overall, while the chapter is quite technical, it helps shift the emphasis from the GND to degrowth.

According to the chapter by Pressman, while Piketty emphasizes a wealth tax to reduce inequality, post-Keynesianism focuses on stabilizing business cycles. It highlights that Piketty has shifted from $r > g$ to ideology to explain inequality. His earlier theory was critiqued based on the idea that wealth inequality is not necessarily due to $r > g$, as people can get unlucky and lose wealth, consume their wealth, or divide it amongst their children. Moreover, $r > g$ hits a snag, as based on mainstream economic theory, the return to wealth should decline as it grows. However, post-Keynesianism explains why $r > g$ based on the idea that financial innovation and individuals modifying their asset portfolio, both increase the rate of return (r).

Post-Keynesianism explains that inequality reduces effective demand, as the rich have a lower propensity to consume. Moreover, inequality reduces productivity growth. This is because productivity is based on effective demand, as in the case of services like orchestra where productivity is not based on the speed of musicians but on money based on ticket sales. However, I do not necessarily agree with Pressman's other example where teacher productivity is based on having more students in the classroom. I would argue that the converse holds true where students fail to receive individual attention and become mere numbers in large classrooms.

Pressman states that while Keynesianism calls for cyclically balanced government budgets, Piketty had advocated a balanced budget to combat inequality by taxing the rich instead of borrowing. Taxing the rich and redistributing to the poor would promote consumer spending and economic growth without increasing budget deficit and debt. However, Piketty has shifted towards a more Keynesian view and perhaps even MMT, which is not concerned with debt. Although, based on the chapter by King, Piketty retains the solution of progressive annual tax on wealth to provide a universal capital endowment. Overall, the chapter shows that post-Keynesianism helps explain $r > g$, that inequality lowers effective demand and productivity growth, and the evolution of Piketty's ideas, which is not evident from reading Piketty (2021) alone.

Whilst my focus is on MMT, degrowth and inequality, the book also showcases other features in post-Keynesian economics. For instance, the introductory chapter highlights the importance of effective demand and money in determining employment and output, the power of oligopolistic industries to influence governments and institutions, and the role of class conflict in determining both income distribution and inflation. Additionally, it highlights the capitalist logic that prioritizes the private sector but maintains austerity for the people. In popular jargon, this logic is noted as capitalism for the poor and socialism for the rich.

Likewise, the chapter by Rochon highlights the reverse causality from investment to saving and that inflation is based on the conflict between workers and capitalists. Finally, the chapter by Long pushes post-Keynesianism to recognize the racial and gender biases in fiscal and monetary policies by acknowledging inequitable access to financial and labour markets. However, the book ignores issues of pluralism in economic theory, post-Keynesian microeconomics and the role of mathematical and econometric modelling in post-Keynesian economics. As an educator, I look forward to such topics in future edited volumes.

To recapitulate, the edited volume of chapters provides readers with contending perspectives on MMT vs post-Keynesianism, GND vs degrowth and the nexus between Piketty and post-Keynesian economics. In so doing, the book adds to the perspectives offered by popular books like those by Kelton (2021), Hickel (2021) and Piketty (2021).

REFERENCES

De Muijnck, S., Tieleman, J. (2021): *Economy Studies*, Amsterdam: Amsterdam University Press. https://www.economystudies.com/es-for-macro/ (accessed 23 February 2025).

De Muijnck, S., Tieleman, J., Reardon, J. (2023): Foreword, *International Journal of Pluralism and Economics Education*, 14(2), 83–93.

Hickel, J. (2021): *Less Is More: How Degrowth Will Save the World*, London: Penguin.

Keen, S. (2022): *The New Economics: A Manifesto*, Cambridge: Polity Press.

Kelton, S. (2021): *The Deficit Myth*, New York: Public Affairs.

Mearman, A. (2017): Teaching heterodox economics concepts, in: *The Handbook for Economics Lecturers, The Economics Network*. https://www.economicsnetwork.ac.uk/handbook/pluralism (accessed 23 February 2025).

Piketty, T. (2021): *Time for Socialism*, New Haven: Yale University Press.