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### Book Review

Book review: J.E. King, *Advanced Introduction to Post Keynesian Economics* (, Cheltenham, UK and Northampton, MA, USA 2015) 139 pages R.G. Holcombe, *Advanced Introduction to the Austrian School of Economics* (, Cheltenham, UK and Northampton, MA, USA 2014) 126 pages

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

### Provided in Cooperation with:

Edward Elgar Publishing

*Suggested Citation:* Niechoj, Torsten (2015) : Book review: J.E. King, *Advanced Introduction to Post Keynesian Economics* (, Cheltenham, UK and Northampton, MA, USA 2015) 139 pages R.G. Holcombe, *Advanced Introduction to the Austrian School of Economics* (, Cheltenham, UK and Northampton, MA, USA 2014) 126 pages, *European Journal of Economics and Economic Policies: Intervention (EJEEP)*, ISSN 2052-7772, Edward Elgar Publishing, Cheltenham, Vol. 12, Iss. 3, pp. 357-360,  
<https://doi.org/10.4337/ejeep.2015.03.07>

This Version is available at:

<https://hdl.handle.net/10419/277342>

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## Book review

King, J.E. (2015): *Advanced Introduction to Post Keynesian Economics*, Cheltenham, UK and Northampton, MA, USA (139 pages, softcover, Edward Elgar, ISBN 978-1-78254-843-0)

Holcombe, R.G. (2014): *Advanced Introduction to the Austrian School of Economics*, Cheltenham, UK and Northampton, MA, USA (126 pages, softcover, Edward Elgar, ISBN 978-1-78195-574-1)

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Nowadays the amount of literature you have to read to keep up with the latest developments in your field of interest has increased dramatically. Therefore, smaller books are welcomed by the audience and thus also by publishers. As part of this trend, Edward Elgar launched a new series of slim volumes in 2014. These ‘Advanced Introductions’ cover roughly 130 pages and address readers who are interested in a sophisticated and stimulating but brief presentation of a field. The series covers social sciences and law; among it is a significant number of economic subjects. It offers concise and hence necessarily selective depictions by leading scholars in their field of research. In the following, I am going to contrast two volumes in the series which both deal with schools of thought in economics, namely post-Keynesian economics and the Austrian School.

John E. King, who is well known for his book on the history of post-Keynesian economics (King 2002), addresses his topic from different angles, allowing him to draw a very comprehensive and versatile picture of post-Keynesianism, even though the book is so limited in size. After a short introduction, his second chapter deals with six core propositions of post-Keynesian economics, for example the principle of effective demand and the causation from investment to savings. Based on this he can differentiate *post*-Keynesian economics from other forms of Keynesianism and other schools of thought (ch. 3). This is extremely helpful for people who have a fair mastery of economics but only know the simple textbook representations of Keynesian economics. A further means of differentiation is the distinct post-Keynesian methodology, linked to the concept of uncertainty (ch. 4). Economic systems are viewed as open systems that are characterised as changing over time and not fully predictable. If so, a single, hermetic approach is not sufficient to understand this complex and dynamic world. Hence a plurality of models, formal techniques and perspectives is required to identify and interpret regularities.

Two chapters focus on economic theory. Perhaps surprisingly, King devotes a whole chapter to microeconomic issues, although the post-Keynesian approach in this field is rather eclectic and – at least in relation to macroeconomic theory – underdeveloped. Crucial elements are: the existence of a non-clearing labour market; consumption behaviour which is not independent of others; market power which leads to mark-up pricing; and a rejection of decreasing marginal costs in the short run so that demand constrains output, not costs. Managerial and entrepreneurial functions seem to be the poor cousins of

post-Keynesian microeconomics. Although they are crucial for investment and the concrete realisation of these functions might change over time, and although financial innovations and a new relationship between management and shareholders played an important role in the financial market crisis, a coherent view still has to be developed.

The other chapter that deals with post-Keynesian economic theory summarises growth models and economic development, starting with the Harrod growth model. What I missed in this chapter, which is the only one directly addressing macroeconomic theory, was an overview of newer achievements in post-Keynesian economics, for example the development of stock-flow consistent models. These models are present throughout the book when King differentiates between stock and flow aspects, but for a broader audience it might have been helpful if he had pointed out the existence of a new type of now well-established models more explicitly and had included a description of their key elements. Moreover, even the 'workhorses' of post-Keynesian economics, such as the Kalecki model, are only briefly discussed in chapter 2. A more extensive depiction could be helpful for readers who are not familiar with these models and perspectives.

Chapter 7 reviews the policy recommendations of post-Keynesian economics and briefly sketches the theoretical underpinnings. King discusses not only monetary, fiscal, prices and incomes policies (rather than wage policies) but also includes discussions about exchange-rate regimes and environmental issues.

In my view, an introduction to a school of thought should include examples, cases and illustrations to show the relevance of the approach and to support the understanding of material that might be alien to readers only familiar with the mainstream or other schools. Therefore, the idea of including the eighth chapter on the global financial crisis is convincing; even more so because the crisis was a striking example of the misconception of the mainstream, as King nicely illustrates. Seminal discussions within the post-Keynesian camp on the causes of the crisis are outlined, for example the question of whether the crisis was a Minsky moment or the contribution to the crisis of debt- and export-led growth models. Unfortunately, due to the limited size of the book, there is not sufficient room to spell out all relevant aspects. Before King can present the specific post-Keynesian interpretation of the crisis he first has to depict the crisis itself. Then, he has to elaborate on the mainstream perspective to contrast it with the post-Keynesian view. Consequently, there is no space left for an application of a model and/or an in-depth analysis of a selected issue in order to fully demonstrate the fruitful insights post-Keynesians have to offer.

King concludes with a chapter highlighting similarities and differences between post-Keynesians and other schools of thought. Not surprisingly, despite a lot of overlapping elements, he does not identify an overarching heterodox school of thought.

Post-Keynesians share some common ground with the Austrian School. According to King, there is 'a shared hostility to general equilibrium and to neoclassical theorizing more generally and an acceptance of fundamental uncertainty and the role of historical time' (p. 125), although basically both schools ignore each other. Both ignorance and the common ground King mentions are confirmed by the second book to be discussed here.

Randall G. Holcombe, a long-time contributor to Austrian debates, takes a critical stance towards the neoclassical orientation on perfect information and markets in equilibrium. In his introduction to the Austrian School he often uses the standard textbook perspective as a reference point in order to demonstrate the different view Austrians have. In contrast to equilibrium-based theories, Austrians believe that markets are characterised by change, not equilibrium. Actors do not know the equilibrium point in advance as they do not have perfect information about market conditions. As a consequence, transactions only accidentally take place in equilibrium. Acknowledging this, it is possible to focus on the processes of market adjustment and disruption, both essential for a capitalistic

order that is based on decentralised coordination (ch. 1). In such an order there is leeway for entrepreneurial action that aims at profits. If successful, profits are created either resulting from arbitrage (that implies adjustment and a tendency towards market clearing) or innovation (that implies disruption and product differentiation). What actors can use and make use of is tacit knowledge which covers past experiences but, per definition, cannot be communicated easily.<sup>1</sup> So the existence of this kind of knowledge on the one hand demonstrates that the future is not completely unforeseeable, because often the tacit knowledge leads to decisions which will prove correct. On the other hand, this concept of limited knowledge directly links to uncertainty as an essential characteristic of market coordination. Although Holcombe does not provide an in-depth discussion of the term and does not review G.L.S. Shackle's work – a common reference point for both Austrians and post-Keynesians – several remarks throughout the book point to an understanding of uncertainty which is based on the market process view and which describes uncertainty (at least partly) as an endogenous feature of capitalism, created by entrepreneurial action which (due to innovations and product differentiation) constantly changes the conditions for competing firms by devaluating their assets (ch. 2).

It is this perspective of a market process view that, if one likes to explore it, might help to underpin the post-Keynesian microeconomic focus on oligopolistic behaviour, mark-up pricing, economies of scale and firms' striving for market share. However, the Austrian bias of a capitalist economy, where profits always prove value creation and are inherently linked to benefits for the whole society, is alien to post-Keynesians which means that the common ground is limited.

Chapter 3 reviews the old but still instructive so-called economic calculation debate before World War II. Ludwig von Mises and Friedrich August von Hayek argued that centrally planned economies did not have the required information to optimise and that economic progress was basically not a question of efficiency but of innovation. Socialists like Abba Lerner and Oskar Lange tried to defend the superiority of centrally planned economies by using a neoclassical-type equilibrium model. Therefore, the debate can implicitly be regarded as a critique of the orthodoxy but also as a blueprint for the core topics of the Austrian school. Essential elements of this approach include tacit knowledge as a more realistic alternative draft to the concept of perfect information, and dynamism being the key feature of capitalism. Moreover, markets are not characterised by a series of optima but by entrepreneurial action which leads to – in the Schumpeterian term – creative destruction, meaning value-creating innovations that put pressure on other firms either to keep up with the innovations or to fail.

The depiction of macroeconomic theory in chapter 4 focuses on the specific Austrian perspective of the business cycle. An increase in the money supply by bank lending leads to an upswing but also to lower interest rates and it fosters malinvestments. Failing investments then trigger a reduction of credits and money created by banks. This discussion of the business cycle is based on Mises' and Hayek's classical contributions which they developed against the background of the gold standard. This is actually a problem because Holcombe neither provides an overview of a modern monetary system with central banks and fiat money nor an updated business cycle theory. Having the pronounced critique of Austrians of the US central bank and their plea against anti-deflationary monetary policy in the aftermath of the Great Recession (cf., for example, Boettke/Coyne 2011;

1. At the beginning (p. 7), Holcombe mentions that tacit knowledge is common to everyone in an economy, but throughout the rest of the book the understanding of this term is reduced to entrepreneurs' knowledge and possibilities only. The use of knowledge and thus the power of innovation is depicted as some kind of natural feature which some people have while others do not.

Selgin et al. 2012) in mind, it seems strange that the book does not include a modernised view of the business cycle and the monetary system.

This is a *pars pro toto* for a general weakness of the volume. Although the book covers lots of illustrative examples, it does not include modern applications of the theory to the real world. The financial market crisis and the Great Recession could have served, as in King's book, as a good example to demonstrate and explain the tools and arguments of the Austrian school. Unfortunately there is no illustration of how the Austrian approach can be applied and made use of. Without it the depiction remains slightly sterile. Moreover, the discussion of methodological issues, usually a strength of this school and the basis for its critique of the neoclassical approach, is only a side issue for Holcombe. Only four pages (pp. 109–112) are devoted to methodology and the reader does not hear about the differences between Mises' praxeology and Hayek's evolutionary concept.

One might argue that, as announced in the preface (p. x), the focus of the volume by Holcombe is explicitly on a basic introduction which avoids controversies and highlights the crucial and distinct elements of the school. Such a coherent, streamlined approach surely has its merits. Still, practical applications and more information about methodology would be beneficial to the target group of such a volume – that is, undergraduates and practitioners who are interested in the Austrian approach but only have a limited knowledge of economics. For an *advanced* introduction – and this is the concept and title of the series – I would have expected the text to have a slightly more complex structure, which means that it would have included controversial issues and references to seminal papers of current debates. The whole book has fewer references than a single chapter of King's.

Both volumes introduce readers to a specific school of thought. Surely, the small size of the books calls for a selective presentation and this is well done in both cases. The idea of the series, to publish *concise* introductions, turns out to be successful, at least for the two volumes discussed here. Holcombe's book argues at a rather basic level whereas King's text is indeed an advanced introduction that offers both an overview on the variety of post-Keynesianism for readers not familiar with this approach and food for thought for experienced post-Keynesians. King not only writes about a school that values pluralism highly but the book itself is pluralistic without ever being arbitrary.

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