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### Book Review

Book review: Toporowski, Jan and Lukasz Mamica (eds) (2015): Michal Kalecki in the 21st Century, Basingstoke, UK (267 pages, hardcover, Palgrave Macmillan, ISBN 978-1-137-42827-1)

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## Book review

Toporowski, Jan and Lukasz Mamica (eds) (2015): *Michal Kalecki in the 21st Century*, Basingstoke, UK (267 pages, hardcover, Palgrave Macmillan, ISBN 978-1-137-42827-1)

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Michal Kalecki (1899–1970) discovered the ‘principle of effective demand’ even before Keynes and has been a main source of inspiration for post-Keynesian economics over many decades. His contributions have been honoured and discussed in several intellectual biographies (Feiwel 1975; Sawyer 1985; Lopez G./Assous 2010; Toporowski 2013), edited books (Sebastiani 1989; Blaug 1992; King 1996; Sawyer 1999; Sadowski/Szeworski 2004), and in special issues of the *Oxford Bulletin of Economics and Statistics*, 1977, 39(1), and the *Review of Political Economy*, 1999, 11(3), for example. The most recent edited volume on Kalecki’s economics, by Jan Toporowski and Lukasz Mamica, *Michal Kalecki in the 21st Century*, adds to this list. The book is based on the contributions to some special sessions on the work of Michal Kalecki at the 2012 annual conference of the European Association for Evolutionary Political Economy in Cracow. The first part of the book is devoted to ‘Kalecki and macroeconomics’ and the second part to ‘Kalecki and crisis in the 21st century’. It goes without saying that, after the Great Financial Crisis and the Great Recession, the second part should be especially relevant. But the first part also contains some interesting and important chapters.

In the first part of the book, we find contributions by Peter Kriesler and G.C. Harcourt on ‘The failure of economic planning: the role of the Fel’dman model and Kalecki’s critique’, by Jerzy Osiatynski on ‘Are rigid prices the cause of unemployment?’, by Marc Lavoie on ‘Kalecki and post-Keynesian economics’, by Amit Bhaduri on ‘Effective demand and path dependence in short- and long-run growth’, by Roni Demirbag and Joseph Halevi on ‘Kaleckian traverse, socialist planning and Hayekian objections’, by Lukasz Mamica on ‘The impact of innovations on investment and economic growth in the thought of Kalecki’, and by Hanna Szymborska and Jan Toporowski on ‘“Dr. Kalecki” on Mr. Keynes’. The chapters by Kriesler and Harcourt, Bhaduri, Demirbag and Halevi, and Mamica address specific issues in the areas of investment and growth in a capitalist economy, on the one hand, and of economic planning, on the other, which are of interest for specialists in these fields. The contributions by Osiatynski, Lavoie, and Szymborska and Toporowski provide a somewhat broader discussion of Kaleckian economics in relation to mainstream economics, Keynes’s economics and other post-Keynesian strands, which should be of more general interest.

Osiatynski challenges the old and modern mainstream hypothesis, that unemployment is due to wage and price rigidities, and he carefully develops Kalecki’s and Keynes’s arguments in this respect. Cutting nominal wages will either mean falling prices and hence stable real wages, or falling real wages and hence falling consumption when prices are more rigid than nominal wages. Either way, there is no reason to believe, according to Kalecki and Keynes, that this will stimulate investment or consumption out of profits, and hence aggregate

demand and employment. There may be positive effects of wage restraints on net exports, but such a ‘beggar thy neighbour’ strategy will need counterpart countries accepting rising net imports, and will thus suffer from an aggregation problem. Furthermore, the effects on employment in the net export country will be small due to depressed internal demand, as already argued by Kalecki and as the example of Germany in the early 2000s has shown again. Therefore, Osiatynski, following in particular Kalecki and Lerner, recommends government expenditures and budget deficits in order to stimulate aggregate demand and employment in the case of private domestic demand failures, both in the short and the long run.

The chapter by Marc Lavoie takes issue with Paul Davidson’s critique of Kalecki’s economics. In several papers, Davidson had expelled Kalecki and his followers from what he defined as ‘Post Keynesian’ economics. Lavoie shows that Davidson’s main claim that Kalecki’s theory of aggregate demand and employment is only valid under conditions of imperfect competition and price rigidities is completely unfounded. Kalecki had shown in many places that falling wages and prices in a competitive economy will not increase aggregate demand and employment, that nothing can be expected from the infamous Pigou effect, and that negative real debt effects will dominate the scene. Finally, Lavoie argues that, although there are broad similarities to Keynes, Kalecki’s analysis has several advantages: his non-neoclassical microfoundations, setting his analysis in a realistic oligopolistic environment, his clear assumption of endogenous money, his ‘principle of increasing risk’ integrating financial matters into the theory right from the start, and the key role played by income distribution.

In their chapter, Szyborska and Toporowski go back to Kalecki’s review of Keynes’s *General Theory* (1936) and they show that Kalecki, although following a different methodology and applying different assumptions, was broadly in line with Keynes on the first part of Keynes’s theory, which determines a short-run equilibrium for a given level of investment applying the ‘principle of effective demand’. However, the second part of Keynes’s theory, the determination of investment by the monetary rate of interest and a downwards-sloping schedule of the marginal efficiency of capital, does not find Kalecki’s approval. As explained by Szyborska and Toporowski, the main reason for this disagreement is the lack of distinction between the ex-post level of investment and the ex-ante investment decisions in Keynes’s theory. Such a distinction will not generate a medium- or long-run equilibrium level of investment but rather dynamic processes, which Kalecki attempted to theorize.

The second part of the book contains chapters by D. Mario Nuti on ‘Michal Kalecki’s capitalist dynamics from today’s perspective’, by the late Kazimierz Laski and Herbert Walther on ‘Kalecki’s profits equation after 80 years’, by Gary A. Dymski on ‘Kalecki and Kowalik on the dilemma of “crucial reform” in the United States and Poland’, by Tracy Mott and Mark Evers on ‘A Kaleckian perspective on changes in aggregate income distribution in the US’, by Malcolm Sawyer on ‘Addressing the “Great Recession” using Kalecki’s macroeconomic analysis’, by Edwin Le Heron on ‘Economic policies for exit from crisis, in a post-Kaleckian model’, by Jago Penrose on ‘Firm heterogeneity, finance and development: a Kaleckian perspective’, and by Jan Toporowski on ‘The Kalecki–Steindl theory of financial fragility’.

Laski and Walther consistently apply Kalecki’s profits equation to current economic policy problems and they derive alternative economic policies for overcoming the crisis and the current stagnative tendencies in the mature capitalist economies. Carefully developing the profits equation from an accounting identity, and adding a time lag between investment decisions and expenditures, Laski and Walther argue that in a closed economy a profit-led demand and growth scenario is highly unlikely in the

short run. The improvement of the level of employment would rather require ‘vigorous anticyclical fiscal policy during a deep crisis and ... labour productivity oriented long-run wage policy’ (p. 141). The profits equation is also applied in order to generate various tax paradoxes, to discuss open economy issues and to deal with issues of ‘financialisation’. Going back to Kalecki’s ‘Full employment by stimulating private investment?’ (1945), Laski and Walther point out two important policy implications for an economic situation in which private investment falls short of private saving at full employment levels, and a constellation which is currently generating stagnative tendencies: reducing household saving by redistribution (higher corporate, inheritance, wealth and progressive income taxes) and raising public deficits in those countries, where public debt can be monetized by the respective central bank.

Similar economic policy recommendations based on Kalecki’s ‘Three ways to full employment’ (1944) are derived in the chapter by Sawyer. However, Sawyer also addresses the social and political constraints, based on Kalecki’s ‘Political aspects of full employment’, (1943), which prevent the application of such a kind of policy agenda, in particular the dislike of the ruling classes towards the potential political and social consequences deriving from full employment. He ends quite pessimistically by arguing that ‘[t]he “fundamental reforms” which Kalecki saw as necessary are more remote than ever’ (p. 209). Whether this outlook is too bleak and whether the failure of ‘crucial reform’ is (only) due to the impact of the neoliberal global economy on labour market conditions, as Dymski in his chapter seems to argue, remains to be further discussed.

Overall, this book contains some interesting material for specialists in specific areas of Kaleckian economics, but also some important, more general readings for those who are interested in an alternative to mainstream economics and economic policies, which have been discredited by the recent crises and the economic policy responses towards these crises, in particular in Europe. I can only hope that the book will find a wide readership.

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