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Book review

Toporowski, Jan (2022): *Interest and Capital: The Monetary Economics of Michał Kalecki*, Oxford (208 pages, Oxford University Press, ISBN 978-0198816232)

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I often have some difficulty in understanding what Jan Toporowski is exactly getting at. This was the case when I reviewed his 2005 book, *Theories of Financial Disturbance* (Lavoie 2006). His work is replete with interesting gems, for instance when he questioned Minsky's financial instability hypothesis (Toporowski 2008), but I am also sometimes puzzled by some of his assertions. This is again the case in his new book, particularly when he is making remarks regarding current post-Keynesian work.

Most surprising, however, may be the fact that anyone could devote a whole book to the monetary economics of Michał Kalecki when Kalecki wrote so tersely on monetary theory, as noted in the past by eminent specialists such as Steindl, Dymski and Sawyer. As a consequence, as one would then expect, only parts of the book are indeed devoted to Kalecki's views. The first section of the book, made of five chapters, is appropriately called 'Fragments of money and interest', essentially based on the earlier writings of Kalecki on monetary theory, sovereign debt issues and international monetary policy. The second section, from my perspective, contains the core of the book, with a chapter neatly regrouping the main ideas that Toporowski wishes to defend, and two chapters criticizing existing heterodox views on monetary economics. There is a fourth chapter in that section, but to a large extent it seems to repeat themes already covered in the third chapter of the first section. The last section is made up of three chapters that deal with the scope and functions of modern central banking, with little or no relationship with Kalecki. I found these three chapters less original, as Toporowski makes distinctions, for instance between bank systems and capital market systems, which have already been put forward by Hicks (1974) when distinguishing between overdraft systems and auto-economy systems. In addition, his analysis of the so-called 'reserve position doctrine' is not as inspiring as the one initially made by Bindseil (2004), while the corridor system, which needs less recourse to open-market operations, has already been described in great detail by authors such as Fullwiler (2013) or myself.

The introduction of the book sets the tone for the rest of the work. Toporowski explains that he rejects formalization since it may be based on mistaken starting assumptions, despite Kalecki himself making use of equations. Thus, with a couple of exceptions, there are no equations, no statistics and no use of T-accounts to explain the succession of monetary payments which is a main topic of the book. Toporowski then goes on claiming that the critique made against neoclassical economics and its lack of realism is greatly overdone. Still, he claims that, unrealistically, corporate finance has been neglected by all economists, including the post-Keynesians. Toporowski claims that the main value of his book is that it presents 'in a systematic way the key concepts and relations of money, credit, and finance that are necessary to understand finance and its crises today' (p. 3). He argues that

two other approaches within post-Keynesian economics have attempted to do so: the stock-flow consistent (SFC) approach and the theory of the monetary circuit. While Toporowski does grant that such consistency requirements are needed, he doubts the usefulness of the SFC approach because its models quickly become overly complex and for the reasons presented in Michell/Toporowski (2012). I had to go back to their chapter to find out what the problem was: their critique was that SFC models usually started from an equilibrium state, from which a departure was provoked by a shock on one of the parameters. While this was true then, there have been several SFC models entertaining more Minskyan features over the last ten years.

The theory of the monetary circuit, which Toporowski calls the French-Italian-Canadian school, is analyzed in greater detail in Chapter 8 through a review of the book by Graziani (2003). Here Toporowski rightfully mentions that in Graziani and circuit theory, it is assumed that firms start out with no financial assets or money balances, which leads to all sorts of logical problems when trying to explain how firms can pay interest on the borrowed funds. By contrast, as cited from Kalecki no less than three times, ‘the most important prerequisite for becoming an entrepreneur is the *ownership* of capital’ (pp. 13, 72, 103), meaning here money balances. While Toporowski is quite right to criticize Graziani and other circuitists in this respect, it must be mentioned that this fake interest paradox vanishes in these SFC models that Toporowski seems to find intractable. In addition, Le Heron/Cottin-Euziol (2021) show that assuming that firms hold or do not hold money balances barely changes the results achieved within a SFC model.

Chapter 8 is also an occasion for Toporowski to go after the wage-led profit-led literature that started with Bhaduri and Marglin as well as the so-called financialization school, which he attributes to Hein and to Stockhammer. Toporowski (2020) had already expressed annoyance with this profit-wage literature, but here he derides Bhaduri and Marglin for arguing that capitalists could increase their profit margins, while asserting, citing Kalecki, that in reality the capitalists can decide to spend more but cannot decide to earn more profits (p. 106, fn. 17). There is no inconsistency in those two statements, however, since the first one refers to a profit margin whereas the second one refers to the total amount of profits. It is as if Toporowski declines to acknowledge the difference between the determination of the profit *share* and that of profit *levels*. Similarly, Toporowski claims that there is a fundamental inconsistency in financialization theory, refuting their claim that falling wages would lead to a rise in the profit share, since ‘changes in the profit share are the result of changes in expenditure’ (p. 110). This claim is based on his use of Kalecki’s profit equation where, with standard notation, the profit share relative to the wage share is given by:

$$\frac{I + (G - T) + (X - M) + C_p - S_w}{C_w + S_w}$$

Toporowski forgets, however, that in Chapter 6 he did insist that ‘prices are a mark-up on the *direct* cost of production (labour and raw materials)’ (p. 73), so that the share of profits depends on this percentage mark-up. Obviously, with a larger mark-up, real wages will be lower, and the profit share will be higher, which is what the financialization school is saying. Furthermore, the profit share also depends on the ratio of material unit costs to wage unit costs. Lower nominal wages, at given labour productivity, will lead to a higher profit share despite a constant mark-up (Hein 2012: 23; Lavoie 2022: 167). Again, there is no inconsistency.

There are other claims made by Toporowski regarding his post-Keynesian colleagues. In his core Chapter 6, Toporowski states that Keynes and post-Keynesians have a state theory of money whereas Kalecki (and presumably authors in the theory of the monetary

circuit) have a credit theory of money. In addition, post-Keynesians would focus on the accommodative behaviour of the central bank, or else on financial innovations, whereas Kalecki's focus was the lending activity of banks in response to their customers. Thus, for Kalecki and Toporowski, the endogeneity and elasticity of the financial system is based on the financial collateral that firms and capitalists can offer to banking institutions. In this sense, money deposits are not created *ex nihilo*, they depend on the collateral that borrowers can provide – a fair point. Toporowski also briefly notes in that chapter that we should clearly distinguish between the saving of firms, which allows them to finance investment, from the saving of household, which tend to increase the debts of firms – a distinction which, it must be recognized, is not always made clear by heterodox authors when dealing with the overall propensity to save out of profits, except when retained earnings also enter the investment function. Toporowski also engages himself in the esoteric debate about whether money is held because of uncertainty, a belief which he attributes to post-Keynesian theory, or whether, as he believes, uncertainty arises because of the existence of money (p. 129).

Chapter 7 is entirely devoted to the relationship between the profit rate and the interest rate in classical political economy, as reflected in the book of Anwar Shaikh (2016). For Toporowski, in contrast to Shaikh, there is no relationship whatsoever between these two rates. One reason is that the level of the interest rate determines neither the profit rate of the banking industry nor, through competition, the profit rate of the industrial sector. This is because profits in the banking sector depend on the differential between the lending and the deposit rates, and not on the interest rate level. Furthermore, because capitalists, or at least large corporations, dispose of their own financial capital, they do not need to borrow from banks; only small and medium-size firms might have to, but in general anyway they are not sufficiently credit-worthy to get loans. As a result, the mark-up is unlikely to be interest-elastic, in contrast to the claims of Sraffians and of some other post-Keynesians.

All in all, Toporowski is quite sceptic about the ability of monetary policy to affect investment. This is most evident in Chapter 12 where he rejects the Wicksellian explanation of inflation based on the discrepancy between the natural rate of interest and the money rate of interest, arguing instead, along typical Kaleckian lines, that inflation depends on the evolution of the wage rate, the unit material cost and the evolution of the exchange rate. The rejection of Wicksellian economics is the main topic of Chapter 2. Along with Kalecki, the author considers that the Wicksellian story about inflation is a tautology, since the natural rate of interest cannot really be measured, leading central bankers to claim that if there is inflation or if inflation is rising, it is because the actual interest rate is too low relative to the unknown natural rate. In addition, Kalecki and Toporowski consider that investment and economic activity are, broadly speaking, totally unrelated to the level of the interest rate, whether short or long. Instead Toporowski recalls – a claim that Shaikh (2016) would not deny – that 'Kalecki defined actual profits as the main factor determining investment and the business cycle' (p. 30). As noted by Toporowski, this led Kalecki to assert in 1954 that 'there is no such thing as a "natural" rate of interest' (p. 33), since as in Keynes, the interest rate does not equalize investment to saving. If there is a credit cycle it only depends on the banks' willingness to lend to small firms, which are less creditworthy. Of course, this ties in with Kalecki's famous principle of increasing risk.

Various chapters touch upon the issue of government debt and deficits. Kalecki insists that domestic government debt is an internal transfer between current nationals; it is not an intergenerational transfer as found in Barro's Ricardian equivalence approach. In both Chapters 2 and 3, Kalecki and Toporowski seem to imply that there is never any problem

in financing a deficit because the government expenditures generate increases in the bank deposits of agents as well as increases in the reserves of the banks. It is only in Chapter 9, that the author recognizes that there is a short intertemporal problem as the funds must be secured before they arrive in the bank accounts (p. 114). One might thus make a link with the claims of Modern Monetary theorists, who seem to assert that borrowing is not needed when the government runs a deficit. In any event, it is argued that it is possible to stop the long-term interest rate from rising by issuing more short-term bills and using the proceeds to buy back long-term bonds, something that we actually observed during both the 2008 financial crisis and the 2020 COVID-19 crisis.

In a nutshell, the book provides some interesting and original insights, but it might also confuse or even annoy some readers.

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