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A Modern Guide to Post-Keynesian Institutional Economics

by **Charles J. Whalen**

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The proliferation of different schools of thought, defined by unquestioned allegiance to the doctrine, or doctrines that are special in a given school, is a worrying symptom of the decline in critical self-awareness in economics. With the raising of the colours of each new school, the thinking economics must ask "what is the value added?" of the new approach: what new knowledge or critical awareness does it bring to economics. In recent years much heterodox economics has justified itself on the grounds of realism, rejecting calculation as the defining feature of the human condition. But the realism cannot be merely statistical since, as the old saying goes, all data will confess if interrogated long enough. And, in a sense, the lack of realism of a basic model does not really matter, as long as it can be shown that its conclusions still hold, as those unrealistic assumptions are removed.

Charles Whalen's Institutional Post-Keynesianism offers as its value added a marriage of old institutionalism, which had the advantage of being providing insights into many disciplines: sociology, political science, psychology, as well as economics, bound together with pragmatic philosophy, with Post-Keynesianism, that adds systematic monetary economics to the social mix. Viewing institutions as everything that is socially constructed, from human organizations to ways of thinking, the insights of old institutionalism provide a rich seam of social critique and reform, as well as avoiding the reduction of economic analysis to calculated objective functions. But built on incidental understanding and learning, the old institutionalism does not completely fit the institutional parts to the whole. Veblen's radical critique of corporate capitalism falls short because its author did not finish his analysis of balance sheets (Thorstein Veblen 1904; Paul M. Sweezy 1958). Post-Keynesianism, founded in John Maynard Keynes's attempt to provide an alternative macroeconomic understanding of economic stagnation, poverty and unemployment to Veblen's underconsumptionism (Keynes attributed these pathologies of modern capitalism to under-investment), affords at least the promise of a more systematic approach to social economy. But Post-Keynesianism too has its baggage that fits badly with the old institutionalism, most notably the attachment of many fundamentalist Post-Keynesians to understanding institutions through categories of uncertainty, money, expectations and market equilibrium that transcend any particular state of the economy or society.

The overlap of the two schools of thought in Post-Keynesian Institutional Economics is an intriguing intellectual current that has emerged principally among economists in the United States. It combines ideas familiar to institutionalists, perhaps most notably the analysis of business organizations and operations most familiar to economists from the work of J. K. Galbraith, with the monetary and financial categories of some of Keynes's followers. Post-Keynesianism owes much of its topicality to the 2008 crises in the United States and Europe, crises that played into strength of Post-Keynesianism as virtually the only school of thought that took finance seriously, rather than reducing it to portfolio or liability management, or a special case of bank runs. When crises break out, the New Neo-Classical Synthesis of New Classical and New Keynesian thinkers can offer a reductive model showing how such a crisis might arise. But the models fail with the first approximations to any real world situation. Only Hyman Minsky, from among Post-Keynesians, could show how a financial crisis arises endogenously through the systematic working out of the business cycle.

Too bad that Minsky's business cycles were more Schumpeterian or Kaleckian than Keynesian. Minsky at least showed how the financial system of a capitalist economy is less than functional to that economy. Charles Whalen worked with Minsky in the latter's final years, at a time when Minsky was drawn to Veblen's critique of corporate America (written in 1904, shortly before the 1907 Crash in the United States, that affected countries as far away as Europe). That critique seems to have inspired an evolutionary turn in Minsky's thinking to highlight the emergence of corporate economic hegemony in the last decades of the nineteenth century, its downfall in 1929, and its recovery after the Second World War, documented in Minsky's own work, to the "Money Manager Capitalism" of the 1980s and 1990s (Hyman P. Minsky 1996). One does not have to accept every detail of Minsky's evolutionary scheme, to see that capital markets are capable of generating long financial cycles that then affect the functioning of economies at large (Jan Toporowski 2020).

Charles Whalen expands upon this intellectual background to Post-Keynesian Institutionalism in his Introduction to this Guide. His influence on the structure of this book may be seen in his choice of priority in the ordering of the chapters: The first part after the Introduction (Part II in the book) is on "Money Manager Capitalism". Here David A. Zalewski starts the discussion with a scholarly essay on "The transition from managerial to money manager capitalism: the role of risk and its distribution". This focuses largely on the stable post-war corporate order that was disrupted by more active capital market from the 1980s onwards. This is followed by Avraham A. Baranes' essay "Financialization and employment: A Post-Keynesian Institutionalist understanding of the transnational corporation under money manager capitalism". Baranes argues that what has come to be called the "shareholder value" orientation of large corporations, under money manager capitalism, is behind the casualisation of labour and the outsourcing of production.

Yan Liang then joins Charles Whalen to examine "Money manager capitalism and the coronavirus pandemic", putting the case that the pandemic shock has reinforced the unequal distribution of income between wages and profits that obtains under money manager capitalism. Money Market capitalism features also in the chapter by Christian E. Weller and Emek Karakilic on “Wealth inequality, household debt, and macroeconomic instability”. Here the association is between the expansion of finance and growing wealth inequality, leaving least well-off households, among whom may be found many African-Americans and other ethnic minorities, worse off and driven, like the poor, into debt. The precarious situation of the poor is then made worse by macroeconomic instability. Oren M. Levin-Waldman then provides an interesting comparison between Republican states of the United States, and Democratic ones, to show that Democratic states have stronger labour institutions and less inequality.

The section on “Money Manager Capitalism” is followed by one on “Concepts and Methods”. Here Asmina Christoforou contributes on “Social capital and public policy: the role of the state in transforming society”. Christoforou focuses on the potential for social movements to transform the state and society, in particular along Polanyian lines to replace a neoliberal order with a more comprehensive welfare state. Anna Klimina follows with a chapter on the disastrous transition of the former Soviet Union to the oligarchic capitalism that was the butt of Veblen’s original critique. Alicia Girón then takes the discussion to Latin America, to make a link between the Latin American structuralists, notably José Carlos Mariátegui, Agustín Cueva, and Celso Furtado, and American institutionalism. She features the late Eugenia Correa as representing this link in the recent literature. There is a greater focus on rhetoric in the chapter by Timothy Wunder. Under the intriguing title “What do economists’ really mean?” Wunder puts forward Post-Keynesian Institutionalists as “translators” of mainstream economic policy discussions to the laity outside the closed retreats of the mainstream economics.

The final contribution in this section is essential methodology. Marc Lavoie presents stock-flow consistent macroeconomic modelling as a part of Post-Keynesian Institutionalism, on the grounds that the first theorist of stock-flow modelling, Morris Copeland, was an institutionalist, and the way in which stock-flow consistent models have developed in recent years incorporate financial institutions. As a pioneer of this kind of modelling, Lavoie provides an authoritative survey of the literature.

The final section, under the title “Theories and Syntheses”, takes a number of topics and theories to fit into the Post-Keynesian-Institutionalist discourse. Eduardo Fernández-Huerga returns to the labour market to argue that it is made up of fragmented processes that do not converge on any “market-clearing” equilibrium. Samba Diop then revises Minsky’s financial cycle theory to argue for regulatory cycles in financial and banking markets. Faruk Ülgen continues in the Minskyan theme to press the case for financial regulation to be based on desired macroeconomic outcomes, rather than microfounded in bank balance sheets. This inconsistency, he argues, contributed directly to the 2008 financial crisis in the United States. Anna Zachorowska-Mazurkiewicz then contributes a serious chapter on the way in which Institutionalists and Post-Keynesians have regarded women’s work. The book concludes with a chapter by Charles Whalen on environmental sustainability. Here he recognizes the pioneering ideas of Kenneth Boulding.

Taken together, the book surveys the interesting and radical work done by Post-Keynesian Institutionalists. It is certainly valuable to see such a clear focus on Minsky and Veblen across such a range of economic discussion, showing how much is lost through the neglect of such seminal figures in American economics. Those who know their Galbraith, Minsky and Veblen may find few surprises in the book. But it is a guide that can be strongly recommended to students who like their economics to be pluralist and informed by broader developments in society.

A recurrent theme in the book is the "money manager capitalism" that we know from the work of the editor and his master, Hyman Minsky. It is a tribute to that editor that the chapters here are so comprehensive of Post-Keynesian Institutionalist literature. However, the volume stops short of a Post-Keynesian, or Institutionalist consideration of money. Gladstone may have been right in observing "that even love has not turned more men into fools than has meditation upon the meaning of money" (Karl Marx 1970, p. 64). But monetary institutions are something different. Post-Keynesians have contributed hugely to monetary economics, and more of this contribution might have been expected.

The other gap concerns the analysis of small and medium-sized businesses. This has been sorely neglected in both Post-Keynesian and Institutionalist discussions, perhaps because corporate capitalism has long been the target of criticism in those discussions. One could read the works of Minsky from beginning to end without coming across any mention of smaller businesses. There is some justification for this in consideration of economic dynamics, since Keynes and, somewhat more implicitly, Veblen, and after them Minsky, recognized business investment as the key determinant of economic growth or its failure. The overwhelming bulk of private sector business investment is undertaken by corporations, and this, together with the problem of monopoly, might warrant a preoccupation with this business sector. But it is the small and medium-sized business sector that accounts for the majority of private sector employment in virtually all market economies. This is neglected by economists at the cost of not only the realism in their models, but also the politics in their political economy.

Despite these limitations, Charles Whalen has pulled together an outstanding Guide to Post-Keynesian Institutionalism that can be recommended to students and all readers interested in an economics grounded in institutions, rather than the usual objective functions.

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