Foreword

The mainstream of the economics profession was caught unprepared and unaware when the Great Financial Crisis struck in 2008 and has been left clueless in the face of the subsequent secular stagnation until today. Mainstream economics is in an existential crisis – even if most economists are still in a state of denial. Willem Buiter was only more explicit than most when he wrote (in the *Financial Times*, 3 March 2009) that mainstream thinking ‘tended to be motivated by the internal logic, intellectual sunk capital and esthetic puzzles of established research programmes rather than by a powerful desire to understand how the economy works – let alone how the economy works during times of stress and financial instability’. Luckily, a few determined economists, going against the powerful mainstream current, have never given up their desire to understand how the economy works – and continued building an ‘economics for the real world’. This volume on *Inequality, Growth and ‘Hot’ Money*, written by Argentinean macroeconomist Pablo Bortz, must be counted as a new – and impressive – contribution to this vibrant school of real world economics, as it combines rigorous macroeconomic and econometric modelling and informed theoretical understanding to shed new light on economic growth, income distribution, foreign debt, financial stability and crisis. Its main source of inspiration is Michał Kalecki’s (wage-led or profit-led) model of economic growth. This framework is skilfully applied to the Argentinean open economy (1950–2006), and the econometric findings reveal that Argentina is not a profit-led economy; hence, macro policies which help restore profitability (by wage share repression) must fail in bringing about economic growth. But this book offers much more: it develops the Kaleckian model in two further directions to make it even more relevant to the real world.

The first development embeds Kalecki’s macro model in a comprehensive (‘no-black-holes’) two-country Stock-Flow Consistent (SFC) growth model in the best tradition of Wynne Godley and Marc Lavoie. Dynamic simulations using the complex SFC model bring out the overwhelming importance of financial flows and stocks in determining the exchange rate, the current account deficit and real economic growth. This explains why cutting wage costs to improve export price competitiveness may not

improve the balance of payments, and why one must not blame the fiscal deficit for causing a current account deficit. EU policymakers dealing with Greece and Spain should take these important lessons to heart and stop insisting on 'internal devaluation' and 'fiscal austerity' as solutions to the Eurozone crisis!

The second extension is the introduction in the Kaleckian model of private foreign indebtedness (as an endogenous variable). Private capital flows to firms and households in the emerging and developing economies (EDEs) have surged in the 2000s and even more so after the crisis of 2008. These inflows, often very short term, have been fuelling domestic credit expansion and asset price inflation, raising financial fragilities and making these EDEs vulnerable to a sudden stop or reversal of these capital inflows. This is exactly the issue explored in Chapter 5, which not only presents an innovative Kaleckian model featuring private foreign debts (denominated in foreign currency), but also empirically applies it to South Korea and Mexico – two emblematic (but structurally different) EDEs which experienced large private foreign capital inflows, followed by a sudden stop and reversal. The analytical and econometric findings underscore the need for capital controls – and as this book uncovers, this is the exact view put forward by Keynes, who argued that '[i]n my view, the whole management of the domestic economy depends upon being free to have the appropriate rate of interest without reference to the rates prevailing elsewhere in the world. Capital control is a corollary of this' (CW, Vol. XXV, pp. 148–9).

Willem Buiter is certainly right in dumping mainstream economics (for being 'useless'), but the present volume shows him evidently wrong when he concludes that in its place, we have only 'an intellectual pot-pourri of factoids, partial theories, empirical regularities without firm theoretical foundations, hunches, intuitions and half-developed insights' (*Financial Times*, 3 March 2009, <http://blogs.ft.com/maverecon/2009/03/the-unfortunate-uselessness-of-most-state-of-the-art-academic-monetary-economics/#axzz3yT0PEBbJ>). Building on the work of Keynes and Kalecki, Pablo Bortz's book is testimony to the fact that we do have a theoretically consistent, viable and empirically grounded framework for macro and monetary policymaking. There is an alternative: do read this book.

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