
Introduction

Stripped down to the bare essentials, Post Keynesian economics rests on the principle of effective demand: in capitalist economies, output and employment are normally constrained by aggregate demand, not by individual supply behaviour. Since a decision not to have lunch today – as Keynes famously put it – does not entail a decision to have lunch tomorrow, investment drives saving and not the other way round. Moreover, there exists no automatic or even minimally reliable mechanism that will eliminate excess capacity and involuntary unemployment. Interest rates depend on monetary considerations, not on the so-called ‘real’ forces of productivity and thrift. There is no ‘natural rate of interest’ to equilibrate investment and saving, so that an increase in the propensity to save will prove self-defeating, resulting in lower output and reduced employment but not in higher levels of saving.

Thus far Post Keynesians agree with mainstream, neoclassical, ‘old’ or – less politely put – Bastard Keynesians like J.R. Hicks, Paul Krugman, James Meade and Paul Samuelson. They part company with them, however, in denying the validity of the neoclassical synthesis and in rejecting the IS–LM model, the real balance effect and the notion of the long run as a sort of magic kingdom where the future is knowable (at least probabilistically), expectations are always fulfilled, money has no real significance and all resources are fully employed. In fact Post Keynesianism emerged as a distinct school of thought, in the 1960s, precisely as a reaction against these perversions of Keynes’s original vision. In his *General Theory*, as they interpreted it, uncertainty was inescapable, expectations were tentative and unreliable, money affected output as well as prices, and demand-deficient unemployment was the central macroeconomic problem. These issues are discussed below in the entries on effective demand, employment, Keynes’s *General Theory*, saving, Say’s Law and unemployment. At roughly the same time there emerged a thorough and incisive Post Keynesian critique of the neoclassical theories of capital, growth and distribution, together with an insistence on the importance of cost inflation and the role of incomes policy as an indispensable weapon with which to fight it (see the entries on capital theory, growth and income distribution, growth theory, inflation, stagflation and tax-based incomes policy).

The tendency for Post Keynesians to define themselves through criticism of the mainstream has led many orthodox economists to conclude that they have nothing positive to say. This is quite unwarranted, but it does contain an

element of truth: one way of appreciating what Post Keynesians do believe is through understanding what it is that they reject. The entries on Bastard Keynesianism, marginalism, New Classical economics, New Keynesian economics and Walrasian economics can profitably be approached from this perspective. A different but related objection is that Post Keynesianism is incoherent when viewed as a set of positive propositions. In an early survey article Omar Hamouda and Geoff Harcourt (1988) identified three, potentially incompatible, streams of Post Keynesian thinking, which they termed the Fundamentalists Keynesians, the Kaleckians and the Sraffians. There are entries on all three (see fundamentalist Keynesians, Kaleckian economics and Sraffian economics), together with two other heterodox currents often taken to have something in common with them, the Austrians and the institutionalists (see Austrian school of economics and institutionalism).

Post Keynesian economics is certainly a very broad church, and I have tried to reflect this diversity in choosing topics and contributors. The entries on monetary questions provide one example (circuit theory, endogenous money, finance motive, financial instability hypothesis and money) and those on policy issues are another (budget deficits, economic policy, fiscal policy, monetary policy, taxation and tax-based incomes policy). With very few exceptions, Post Keynesians are hostile to neoliberalism and united in their support for active macroeconomic management, nationally and internationally (for the latter dimension, see the entries on Bretton Woods, development finance, globalization, international economics and transition economies).

The focus of this book is predominantly macroeconomic, though Post Keynesians have made important contributions to microeconomic theory and policy (as demonstrated in the entries on agency, competition, consumer theory, environmental economics, and pricing and prices) and on questions of economic philosophy, methodology and research methods (see the entries on Babylonian mode of thought, critical realism, econometrics, non-ergodicity and socialism).

Biographical and autobiographical accounts of many prominent Post Keynesians are readily available elsewhere – see especially Arestis and Sawyer (2000) – and thus with only three exceptions there are no biographical entries here (Joan Robinson's economics, Kaldorian economics and Kaleckian economics). John Maynard Keynes, though, is represented by entries dealing with his three great books (*General Theory*, *Treatise on Money* and *Treatise on Probability*), and his presence throughout the volume is so pervasive that it seemed pointless to provide an entry for him in the name index.

Each entry contains references to the relevant literature. Readers looking for an introductory overview of Post Keynesian economics should begin

with the entry on the *Journal of Post Keynesian Economics* in the present volume and then proceed to Holt and Pressman (2001), perhaps in conjunction with the book that it replaced (Eichner 1979). A number of survey articles have appeared, beginning with the previously mentioned paper by Hamouda and Harcourt (1988), and continuing with Arestis (1996) and Arestis and Sawyer (1998), the latter concentrating on policy. Several of the essays in Harcourt (2001) will also be useful. Post Keynesian textbooks include Arestis (1992), Davidson (1994) and – at a more advanced level – Lavoie (1992). A history of Post Keynesian ideas is provided by King (2002), which concentrates on macroeconomics and should be complemented by Lee (1998) on the microeconomic aspects. King (1995) offers a reasonably complete bibliography up to 1994.

I am grateful to Edward Elgar for suggesting this project to me, and indeed for his consistent support for Post Keynesian economics over almost two decades. Philip Arestis and Malcolm Sawyer were extremely helpful at the start, and Fred Lee's assistance was invaluable later on. I must also thank the contributors for tolerating my sometimes savage editorial assaults on their early drafts (which in one case amounted to a 75 per cent cut). It is invidious to single out individuals, but Éric Tymoigne does deserve a special mention for writing lucidly at exceptionally short notice. Subject to the usual disclaimer, Phillip O'Hara wishes to thank Harry Bloch, John King, Peter Kriesler, Marc Lavoie and Douglas Vickers for comments on his entry, and I benefited considerably from the criticism of Marc Lavoie and Michael Schneider on my own.

This volume is dedicated to the memory of Bernard Corry, who sadly died before he could complete the entry that he was working on.

References

- Arestis, P. (1992), *The Post Keynesian Approach to Economics: An Alternative Analysis of Economic Theory and Policy*, Aldershot, UK and Brookfield, VT, USA: Edward Elgar.
- Arestis, P. (1996), 'Post-Keynesian economics: towards coherence', *Cambridge Journal of Economics*, **20** (1), 111–35.
- Arestis, P. and M. Sawyer (1998), 'Keynesian economic policies for the new millennium', *Economic Journal*, **108** (446), 181–95.
- Arestis, P. and M. Sawyer (2000), *A Biographical Dictionary of Dissenting Economists*, 2nd edition, Cheltenham, UK and Northampton, MA, USA: Edward Elgar.
- Davidson, P. (1994), *Post Keynesian Macroeconomic Theory: A Foundation For Successful Economic Policies For the Twenty-First Century*, Aldershot, UK and Brookfield, VT, USA: Edward Elgar.
- Eichner, A.S. (ed.) (1979), *A Guide to Post Keynesian Economics*, London: Macmillan.
- Hamouda, O.F. and G.C. Harcourt (1988), 'Post-Keynesianism: from criticism to coherence?', *Bulletin of Economic Research*, **40** (1), 1–33.
- Harcourt, G.C. (2001), *Fifty Years a Keynesian and Other Essays*, Basingstoke and New York: Palgrave.
- Holt, R.P.F. and S. Pressman (eds) (2001), *A New Guide to Post Keynesian Economics*, London and New York: Routledge.

- King, J.E. (1995), *Post Keynesian Economics: An Annotated Bibliography*, Aldershot, UK and Brookfield, VT, USA: Edward Elgar.
- King, J.E. (2002), *A History of Post Keynesian Economics Since 1936*, Cheltenham, UK and Northampton, MA, USA: Edward Elgar.
- Lavoie, M. (1992), *Foundations of Post Keynesian Economic Analysis*, Aldershot, UK and Brookfield, VT, USA: Edward Elgar.
- Lee, F.S. (1998), *Post Keynesian Price Theory*, Cambridge: Cambridge University Press.

