Foreword

Neoclassical economics has long been divorced from the reality it purports to illuminate. But now that reality, in the form of characteristically turbulent capitalist dynamics, has asserted itself through a worldwide economic crisis. The crisis has damaged the livelihoods of hundreds of millions of people, some of whom were already living on a margin of survival. It has threatened political arrangements and overturned policy prescriptions in every country. And, in passing, it has brought the economics profession to a crossroad. Should it continue to put its reliance on the dominant paradigm, which spends almost all of its time extolling the virtues of a mythical perfect capitalism with only occasional asides on the implications of the stubborn ‘imperfections’ of the real world? Or should it reject the false dichotomy between perfect theory and imperfect reality, and work instead towards theory which is grounded in the real? This book takes the second path.

The present crisis in the economics profession is not unprecedented. Much the same thing occurred in the 1930s. Then, as now, the economic orthodoxy preferred the safety of its blinkered precepts to the unpleasant reality of crumbling markets and mounting unemployment. Then, as now, government after government abandoned these theorists, who after all had little to say on such mundane matters, moving instead to a variety of practical measures based on deficit-financed public spending in which armaments eventually came to play a devastating role. But, at that time, Keynes’s *General Theory* had already been written, so that its prescriptions provided a most welcome theoretical foundation for the urgent needs of the time.

The problem is that the Keynesian theoretical structure proved to have its own deficiencies. Its theoretical foundations were inadequately specified at the time of Keynes’s untimely death in 1946, and its subsequent theoretical expectations were confounded by the confluence of inflation and unemployment in the 1970s. Despite Keynes’s own insistence that his ideas applied to a competitive economy characterized by the ‘higgling’ of markets, Post Keynesian economics attached itself to the notion of imperfect competition and short-run equilibrium analysis. The recourse to imperfect competition tied the theory to the notion of perfect competition, which is its point of departure. The reliance on equilibrium analysis,
on equilibrium as an attained-and-held state, removed disequilibrium dynamics from view. And the focus on the short run led to a persistent inability to treat slower dynamics. It is important to understand that these are not mere theoretical caveats. Post Keynesian economic policy rests on these very same foundations, and foundational deficiencies always have practical consequences.

This book seeks to build a more robust foundation for heterodox economic theory and policy. The microfoundations of macroeconomic analysis are resituated in the theory of strategic competition developed by P.W.S. Andrews, Sir Roy Harrod and others of the Oxford Economists’ Research Group. This provides a clear and precise alternative to the perfect–imperfect competition dichotomy. The book develops an ex ante stock-flow framework which does not rely on equilibrium assumptions, leading to an explicit macroeconomic relation between excess demand in the commodity market and the excess supply of money. Disequilibrium dynamics is formally treated, so that equilibrating processes are seen to be intrinsically turbulent. This provides the grounds for the distinction between faster processes such as the perpetual chase between supply and demand (Keynes’s domain) and the slower one between supply and capacity (Harrod’s domain). The book goes on to demonstrate that Harrod’s treatment of growth provides a powerful foundation for the analysis of capitalist dynamics. Harrod himself was greatly concerned with economic policy in a dynamic context, and this book provides the valuable function of documenting his arguments and drawing out their implications for current concerns. In so doing it also restores Harrodian economics to its proper place in an expanded heterodox canon.

The concerns of this book are extremely timely. In the face of the worldwide economic crisis, fiscal policy is now the rage once again. But neoclassical and Post Keynesian economists strenuously disagree on its long-term consequences. This book points to better ways to address these concerns.

Anwar M. Shaikh