Foreword

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We live in times of instability. This is not new. Despite temporary respites which often lead us to think that we are living in a “new economy,” reality demonstrates that our economy does not move smoothly from one equilibrium point to another and the consequences of instability can be severe. Mainstream economics has failed to grasp this reality. Charles Whalen advocates for a reconstruction of economics that understands instability and its causes.

Charles has been the leader in bringing institutional economics and post-Keynesian economics together. Post-Keynesian economics is not the Keynesian economics that countless students learned in the Paul Samuelson textbook and knock-offs of that book. John Maynard Keynes began the reconstruction of economics with an emphasis on uncertainty and the importance of stabilization. Throughout Charles’s career, he has added to the reconstruction of economics. This book is a witness to his conscientious efforts to reach that ambitious goal.

This collection of the work of Charles demonstrates his knowledge and interests. Two of those interests are the well-being of workers and the economics of post-Keynesian institutionalism, a perspective that provides the foundation for his worker-oriented investigations. Today, as a result of Charles’s efforts to reconstruct economics, there is a group of people who identify themselves as post-Keynesian institutionalists.

Charles brings to the effort to reconstruct economics not only a keen and well-versed understanding of economics but also the skills of a successful practitioner and communicator. His work as a journalist at BusinessWeek, consultant to labor unions, and macroeconomist with the Congressional Budget Office gives him insight into how business, labor, and government view the economy.

Charles leans heavily on John R. Commons and Hyman Minsky, and appreciates that both are linked to Keynes. In the mid-1920s, Keynes ([1925] 1932, p. 334) considered Commons “an eminent American economist” and “one of the first to recognize the nature of the economic transition amidst the early stages we are now living.” In particular, Keynes gave credit to Commons for his understanding of three historical stages in the evolution of capitalism: the era of scarcity, which centered on handicraft production; the era of abundance,
which centered on industrial production, and the era of stabilization, which resulted in the industrial stage of “banker capitalism.”

The Commons–Keynes understanding of the economy as evolving through stages had its origin a century ago, but still underlies Minsky’s analysis of the financial system and the work of Charles and other post-Keynesian institutionals. Minsky’s stages of economics are quite similar to Commons’s stages, but Minsky had the chance to examine the continuing evolution of the economy over many more decades. For example, the Berle-Means finding (of the 1930s) that managers rather than owners ran the corporation, in an era Minsky called “managerial capitalism,” was eventually rendered out of date in the “money manager” era of the 1980s and beyond. Over time, professional investment firms were established to manage the financial assets of not only the wealthy, but also ordinary workers with pensions. These firms demanded high returns and corporate managers lost their independence from stockholders, resulting in a focus on short-term corporate strategies. Finance began to rule corporate management.

In this new era, businesses need continuing debt financing instead of one-shot loans, but loans based on profit expectations are inherently risky. When economic expansion is slow, it becomes more difficult to refinance existing debt. This is Minsky’s explanation, in brief, of his financial instability hypothesis, which describes a thrust to instability that is inherent in our contemporary economic system. To understand our current era, we must understand both its inherent instability and the contours of today’s money manager capitalism. Whalen’s work strives for just that.

The reconstruction of economics includes recognition of the abundance that created instability and the institutions which were developed to address it. Most often, institutional changes have been moves to secure scarcity. Mainstream economics textbooks begin with a statement that prices allocate scarce resources to their highest and best use. In the real world, however, abundance led to economic instability. Business executives were concerned about falling prices and bankers were concerned that their loans could not be paid back. Bankers responded by getting colleagues appointed to corporate boards and by working to prevent entry of new businesses into industries where they were exposed.

Another example of capitalism’s evolution by means of institutional adjustment is provided by changing views on value, property, and competition. In 1890, when the US Supreme Court established exchange value rather than use value as the legal basis for valuing property, it also legalized intangible property. The shift was based on an extension of the Fourteenth Amendment, removing restraints on pursuing an occupation or holding property. However, as Commons ([1924] 1968, 17–18) observed in a detailed examination of Anglo-American law, it was quickly determined that “too much liberty of access on
the part of would-be competitors is destructive of that exchange value. During the past three hundred years this excessive liberty has been restrained by the courts in the long line of cases going under the name of ‘goodwill’ or ‘unfair competition.’"

Yet this is only part of the evidence that makes reconstruction of economics necessary. Charles understands the evidence, knows about the serious problems which call for reconstruction of economics, and has the qualities that contribute to this project. First, he is an excellent writer. Second, his knowledge of heterodox economics is broad and deep as the articles in this collection attest. Third, he has a vision of purpose which has inspired his work, whether his own or that done in collaboration with others. Let the reconstruction continue.

Meanwhile, as important as is that reconstruction, it remains only one portion of Charles’s vision. Charles has a passion for improving workers’ job opportunities and working conditions. He does not see employees as commodities or simply human resources. They have families and are citizens who make up a major part of our economic society. As their lives go, so does our society. However, against the backdrop of several successful state and local campaigns to increase minimum wages, and a continuing effort to do so nationwide through federal law, much of the media blames current inflation on rising wages. Many business commentators make wages sound like an invasion of locusts that ravage our stock buybacks.

Inflation has many causes. But a large contributing factor is that the coronavirus pandemic has disrupted fragile international supply chains, which are products of a globalization process driven by money manager capitalism’s obsession with offshoring, outsourcing, and just-in-time production. For decades, those supply chains, designed in pursuit of profit over worker well-being, provided us with easy access to goods from low-wage countries. Now, after having lived off the wage “race to the bottom” for so long, consumers are paying a price for the existing shareholder-driven system and are being encouraged to blame inflation on workers, when the focus should be on the way globalization has been structured.

Of course, the problems with our current global economic system are not a reason to build a wall around our national economy. The United States is a vital part of the world economy. But we need to examine the consequences of changes in our institutions. Actual observation of the working of the economy is required, rather than just pulling shopworn concepts off the shelf. As Commons said, institutions matter. We also need to remember that institutions are not eternal, but are shaped by “working” rules, which means – as Charles stresses throughout this volume – that we need to continue to reform and reconstruct capitalism. After all, we are evolutionary economists.
REFERENCES
