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Special Issue: Post-Keynesian and Institutional political economy

Editorial to the Special Issue

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In May 2011, the editors of *Intervention: European Journal of Economics and Economic Policies*, which is now named the *European Journal of Economics and Economic Policies: Intervention* (EJEEP), decided to put together a special issue on post-Keynesian and Institutional Economics. A call for papers was then issued in August 2011, which we reproduce below:

> In the recent past, *Intervention* has published a lot of papers on post-Keynesian macroeconomics and economic policies, but the journal, so far, has tackled few institutional issues. There is a need to explore more fully the links between post-Keynesian and Institutional political economy, including their complementarities, past and potential convergence, and also their views on specific topics such as policy issues.
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> Institutional political economy is here interpreted in a wide sense, including Original Institutionalism, which draws inspiration from Thorstein Veblen and publishes the *Journal of Economic Issues*, but also related research programmes, such as the Social Structure of Accumulation, French Regulation and French Convention schools. Papers that establish links between these areas and institutional/post-Keynesian themes are particularly welcomed, as are papers that scrutinize general issues linking institutional and post-Keynesian principles and practices. Papers that discuss institutional and post-Keynesian schools in the context of general topics (e.g., international, development, ecological, governance and feminist themes), as well as specific topics (e.g., money, pricing, labour and competition) are also welcomed; as are papers that analyse one school from the perspective of the other school.

We received no fewer than 24 submissions, and, in part for reasons of space, chose seven of them, which are to be found here.[1] As a result, this special issue certainly has an international flavour, as two contributions each come from Brazil and the USA, while the other three arise from scholars located in Australia, Greece and the United Kingdom. The programme set out was probably over-ambitious, but besides the direct comparisons between obvious post-Keynesian and Institutionalist authors, such as Keynes, Minsky, Kalecki, Commons or Veblen, we managed to get analyses tied to Polanyi, the French Regulation School and the French Convention School. In line with the call for papers, we obtained discussions of important themes such as sound and functional finance, modern monetary theory, interest rate determination, the financial problems of firms, problems of leverage and the business cycle, the

1. The call and the original selection were made with Phillip A. O'Hara, who unfortunately, had to withdraw from the process. We thank him for his initial participation.

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difficulties of high-tech firms to get access to financial resources, as well as the capacity of various heterodox theories to deal with environmental issues.

Some authors, as far back as nearly 40 years ago with certainty, have taken notice of the compatibility or complementarity of Institutionalism and post-Keynesianism. Indeed, as early as 1939, as recalled by Argitis in his contribution in this volume, similarities had been found in the works of Veblen and Keynes. This complementarity was further highlighted by writers such as Dillard (1980), who also emphasized some important connections to Marx. These tight links have led to calls in favour of an alternative to mainstream economics, which has sometimes been called post-Keynesian institutionalism, the Institutionalist Post-Keynesian School, or evolutionary Keynesianism. Broadly speaking, it could be argued that Institutionalism provides the microeconomics of this unified paradigm, while post-Keynesian economics offers the macroeconomic framework. In our opinion, this has been no better exemplified than in the work of the late Alfred Eichner, who had been an important founder of the American post-Keynesian tradition and who had been strongly associated with the work of Institutionalist economists, especially with regard to labour-market issues (see Lavoie et al. 2010; and Seccareccia 1991). For instance, one could say that Institutionalist authors have supplied most of what needs to be said about labour market theory, consumer theory, industrial organization and the theory of the firm, as well as pricing theory; while post-Keynesian economics provides a comprehensive theory of employment, inflation theory, a theory of production and relative prices, growth theory, theories of international trade and finance, as well as monetary economics. This last topic, theories of money and credit, is probably a good example of the benefits of combining an Institutionalist approach to post-Keynesian economics, since an appropriate knowledge of the mechanisms of monetary institutions, including those of the central bank, is critical in providing a relevant and realistic monetary theory, as was demonstrated recently by authors such as Scott Fullwiler (2006). As pointed out in the call for papers quoted above, specific research programmes, such as the French regulation school and the French convention school, have attempted to combine Institutionalist and post-Keynesian components, mixed with Marxist elements in the case of the former, in their efforts to examine macroeconomic regimes and microeconomic social contracts respectively. Some of the contributions do involve the work of these two schools.

The symposium starts with the article of Charles Whalen, who offers a broad picture of what he believes to be the essential features of the Post-Keynesian Institutionalist research programme. Whalen, who was one of the few co-authors of Hyman Minsky, does rely a lot on Minsky's work, as he proposes the following seven features: an Institutionalist foundation; a country-specific and time-specific capitalism; an evolving capitalism; a focus on financial relations; the financial instability hypothesis; a business cycle perspective; and the inevitable role of government. Whalen concludes that these features are likely to contribute to the resolution of our current real-world problems.

The purpose of the second paper, by Giorgos Argitis, is to assess the common denominators that can be found in the works of Veblen and Minsky. Both authors have underlined the instability of financial relations. Argitis finds that the work of Veblen is particularly acute in its analysis of the financial activity of corporations and of the emulation and collusion of their managers and owners, while Minsky's analysis is especially useful when it comes to studying the behaviour of bankers. Both authors clearly reject the illusion of self-regulation and efficient financial markets, and both believe that the rules of the game are such that business cycles are inevitable, as the economy goes through cycles of leveraging and deleveraging.

Reynold F. Nesiba, in the third paper, argues that Institutionalists and post-Keynesians do appear to converge on a shared approach. His exemplar is Modern Monetary Theory (MMT), also called neo-Chartalism. He takes the advocates of MMT as representatives of the Institutionalist branch of post-Keynesianism (as in a sense they are, since many of them are located in or associated with the Department of Economics at the University of Missouri in Kansas City, which has remained an important centre of Institutionalism), and, going through the main precepts of MMT, he endeavours to find out whether the critiques of MMT by other post-Keynesian authors are merely amendments to MMT or whether they represent fundamental disagreements.

The next paper, by Zdravka Todorova, is also in part an assessment of some features of neo-Chartalism. Todorova shows that the social classes described by Veblen are reminiscent of the social classes described by Kalecki and Marx, and that the public sector can provide responses to the conflicts emerging from the class structure of capitalism. She recalls Kalecki's 1943 claim that business leaders dislike full employment and government deficits, and that 'the social doctrine of "sound finance" is to make the level of employment dependent on the state of confidence' of the business community. In the aftermath of the subprime financial crisis, this quote by Kalecki is certainly visionary, as the confidence of business is often invoked to implement fiscal austerity policies and to disregard pleas to adopt Abba Lerner's functional finance.

The fifth paper, by Modenesi, Modenesi, Oreiro and Martins deals with the determination of interest rates. They observe that interest rates in Brazil are much higher than elsewhere, despite low inflation and a current account surplus. To explain this phenomenon, they rely on the French Convention School approach, for which conventions are a rational response to fundamental uncertainty, an idea closely associated with Keynes, in particular in his analysis of the determination of long-term interest rates. The authors conclude that a convention, shared by central bank officials and market participants, as well as some specific institutional features of the Brazilian monetary system, lead to high interest rates, even the benchmark short-term one.

The paper by Gomes, Ferreira, do Couto and da Cunha combines elements from the works of Veblen and Minsky, and also deals with a Brazilian problem. Their paper is closer to the tradition of evolutionary economics, as they wonder how economies at the periphery, such as Brazil, can finance innovative research and development at a faster pace. The authors rely on a thesis advanced by Sheila Dow (1993) in her work on regional economics, whereby it is asserted that during a global downturn, when uncertainty is greater so that liquidity preference and risk aversion will be at their highest, financial capital will flow away from the periphery towards more mature economies – a hypothesis which has certainly been verified during the subprime financial crisis and after.

The symposium concludes with a paper by Lynne Chester and Joy Paton. The authors are puzzled by the fact that post-Keynesians, as well as followers of Karl Polanyi and of the French Regulation School, have shown little concern for environmental issues. They consider various explanations of why this is so, in particular the post-Keynesian concern with full employment and growth, and their optimism with regard to technical progress. Chester and Paton also think that, despite claims to the contrary, there are some commonalities between orthodox concepts and post-Keynesian ones, in part because post-Keynesians would view capitalism and the environment as independent of each other. The authors conclude by claiming that followers of Polanyi and of the French Regulation School are more likely to offer 'green' insights.

We hope that all these papers will persuade readers to peruse the relevant literature and enlarge their range of sources of inspiration among heterodox economics. There is a desperate need for a dialogue among critics of economic orthodoxy, especially in a world economy gripped by its worst crisis since the 1930s and a mainstream economics that is somewhat in disarray because of its shameful inability to explain the crisis and which, therefore, lacks the capacity to offer a meaningful alternative. More than ever, the time is ripe for a paradigm shift that will offer a coherent alternative to the current litany in favour of austerity and prevent the world economy from remaining once again trapped in a state of long-term stagnation.

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