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Post-Keynesian essays from down under: Theory and policy in an historical context

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Abstract

'Post-Keynesian' became an umbrella term for those heterodox economists wanting to move away from the dominant neo-classical paradigm but not comfortable with another umbrella term of 'political economy'. This review is about the contributions to understanding societal and economic change from an established and internationally recognised group of post-Keynesian economists. Many of the features which differentiate them from other, and sometimes fluid, subsets of post-Keynesian economists derive from their Kaleckian inspiration.

Keywords: Australian economy; post-Keynesian economics; critique of mainstream; employment; global economy; impact of globalization; macroeconomic policy

Post-Keynesian Essays from Down Under: Theory and Policy in an Historical Context is a collection of essays in four volumes, each dedicated to a specific theme and the contents written, in the main, by four post-Keynesian economists living in Australia. A sense of their approach emerges from the themes of the respective volumes. Indeed, the selection and organisation of the essays into a collection of four themes suggest a didactic strategy for proceeding.

'Post-Keynesian' became an umbrella term for those heterodox economists wanting to move away from the dominant neo-classical paradigm but not comfortable with another umbrella term of 'political economy'. This review is about the contributions to understanding societal and economic change from an established and internationally recognised group of post-Keynesian economists. Many of the features which differentiate them from other, and sometimes fluid, subsets of post-Keynesian economists derive from their Kaleckian inspiration. The authors of these essays '*Down Under*' shared an

> "underlying theoretical framework [which] was essentially post-Keynesian. They all stressed the importance of the underlying institutional framework, of the economy as an historical process and, therefore, of path determinacy. Money and finance were an integral part of the economy, with monetary variables affecting real variables and

vice versa at all stages of analysis. In addition, all the works saw the ultimate goal of economics as being a tool to suggest policy – even the theoretical works were motivated by the desire to make the world a better place, with better being defined by an overriding concern with social justice." (Extract from Preface, Vol. 1, viii; reprinted in each volume)

Introduction to the volumes

Volume I is entitled *Essays on Keynes, Harrod and Kalecki* and is dedicated to a study of the principal theoretical inspirations of these authors. Harrod works from Keynes's theory of effective demand to develop a dynamic theory of long-period growth, demonstrating that should any equilibrium be reached, it will be unstable. Kalecki's particular contributions to a theory of output and employment, similar in part to the logic of Keynes, stem from their different starting points. They both connect effective demand and sustained unemployment in capitalist economies and conclude that there is no inherent mechanism to 'self-correct' to a full employment equilibrium. Keynes's base is Marshallian marginalism and Kalecki's is Marx. Keynes's effective demand can face fiscal constraints; Kalecki's constraints will tend to be political. He recognises the active political role of social relations of production and distribution and it is from that basis the roles of effective demand in his analyses of capitalism need to be understood. This socio-political edge to Kaleckian - post-Keynesian *Essays from Down Under* underlies most articles in these four volumes.

Volume II is entitled *Essays on Policy and Applied Economics* and is the main focus of this review. It covers financial crises, monetary policy, effects of globalisation, employment policy, wages policy and inflation. We shall return to it later.

Volume III is *Essays on Ethics, Social Justice and Economics* and is about the ethical positions which direct each author to a theoretical practice that recognises the presence of values. From identifying a feature of the society as a 'problem' and its implicit vision of society to selecting those features seen to be instrumental in its functioning, values impact on the creation of the analysis. These essays reflect the authors' own inspirations, from their associations with religion-based ethics to writings of moral and political philosophy. Noam Chomsky's advocacy of the responsibility of the intellectual has been a powerful message for these authors. The commitment to human rights and to addressing social injustices is the common basis to the work of this group of post-Keynesian economists. Their mutual respect and solidarity speak in the opening essay, a tribute to John Nevile from Geoff Harcourt, Peter Kriesler and John Langmore, and in particular in the final Acknowledgements.

Volume IV is *Essays on Theory*. From a broad framework, it looks into more specific discussions about post-Keynesian propositions and what these have meant for policy in practice. Pasinetti's work on growth and distribution is given more attention here. His trajectory is from the initial post-war Cambridge Keynesian interest in endogenous growth of the 1950s and '60s, towards the development of his own theory of effective demand over the long run and the dynamic of technological and intersectoral change.

Each volume opens with an Introduction in which each author documents his intellectual journey and his sources of inspiration pertaining to his essays in that volume. Together, the Introductions reveal the common concern for social injustices and the authors own moral responsibility to act. In presenting this 'map', the authors and readers situate their respective ideas "*in an Historical Context*", both intellectually and within the social, political and economic environments in which they were published. The overlap between each individual author's own guides to the specific focus of each volume provides a glimpse into the intellectual intent and the framework upon which this post-Keynesian group constructs its accounts. For example, moving between the Introductions of Volumes II and IV provides an invaluable guide to some of the controversies around theoretical

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ideas and the translation of these ideas into legitimate bases for applied research and potential policies. This historical dimension, and the spread of time over which the original essays were published, reveals the depth of meaning and the contingencies of their passage. The collection as a whole is both an intellectual history and a history of economy and society, both of Australia and of the global economy it must function in. It records the frictions between political views and economic policy, frictions which often were tempered by politicians finding a 'theory' to justify their ends and the passage of policy to achieve the ends.

Volume II *Essays on policy and applied economics*

Introduction

We now turn in more detail to the *Essays on Policy and Applied Economics* that make up Volume II.[1] The Introduction is followed by 29 essays organised into three Parts: Part I, Policy, presents a post-Keynesian analysis of economic issues and potential policies; Part II examines cases from Australia; Part III looks internationally. It examines the political history and contemporary outcomes of the dependencies entailed within some of the regions largely affected by changes in their foreign trading and domestic production. This includes regions with which Australia needs to maintain a strategic diplomatic relationship especially to facilitate trade while juggling deference to defence expectations.

The post-Keynesian 'down under' approach to political economy explored in these essays has elements of classical political economy and Marx, notably via Kalecki. Joseph Halevi, in his Introduction (Vol. II, p. 2), notes that "Marxism always presented itself to me as a theory of history". This broader scope to economic enquiry is evident throughout this collection, in the method of historical narrative, in identifying the forms of power of class in contemporary capitalism, it underlies the interpretation and shapes the analysis and it identifies why and where economic policy appears most starkly as the servant of politics. Kalecki (1943) appears in several of the essays, as do his many works on dynamic growth and price theory in capitalist systems.

Their accounts of historical process recognise the implicit overlap of knowledge from other branches of the social sciences, so warning to make a guarded use of 'specialised' analysis. The essays offer both critiques of mainstream arguments and policies and positive alternatives. The mainstream theories generally are shown to be irrelevant. The authors often juxtapose the implications of Keynes's ideas and analysis with those of Kalecki on the same issue. Their approach re-conceptualises economic problems to acknowledge the complexity of society and its issues, its possibilities for change, embedded within a cultural structure. Together, the essays establish an alternative interpretation of capitalist dynamics, what is basic and what is specific to each path with its different history. It blurs attempts within the social sciences to separate and specialise knowledge of what are overlapping constitutive subjects. Instead of the isolation and irrelevance of orthodox economics, the post-Keynesians 'down under' present economics as part of a broader methodology that draws on different sources and forms of knowledge or data to inform its particular issue. From there, a framework can be created for relevant analyses and policies.

Opening essays

The opening essay of Volume II by John Nevile and Peter Kriesler, 'Tools of choice for Fighting Recession' (Ch. 1, 2002), immediately discloses the gap between principles of post-Keynesian economics and those of monetarism, the significance and implications of which are further developed in the subsequent essays. Their context is the economy and society of post-war Australia focussing on the period from the onset of recession in the 1970s.

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They describe an economy whose immediate post-war economic policy prioritised full employment, and its successful pursuit was framed by Keynesian-based fiscal policies. For Australian workers, growing real wages over a secure working life became a presumption, indeed an institutionalised social 'right'. In the early 1970s, the onset of stagflation and the uncertainty associated with Nixon's deregulation in 1971 of the $US, threatened globally and domestically with political grounds for change. In Australia, as elsewhere, price stability replaced full employment as the central public policy objective bringing monetary policy back into budgetary fashion. The economic certainty of workers' rights transformed into higher 'normal rates' of unemployment and stagnant, even falling, real wages and growing inequality of incomes. Nevile and Kriesler set out, succinctly, the arguments on both sides and their respective critiques.

The opposing sets of advice and theoretical support evolved from groups which are fundamentally separated by their political philosophies and their associated economic rationale. The shift of 'vision' in the early 1970s, from social democracy to one of neo-liberal non-intervention, entails a shift of focus of both economic objectives and differently-conceived arguments. The significance of this underlying opposition can be politically obscured by the rhetoric of an apparent goal-in-common, 'jobs and growth'. Monetarism assumes that an unobstructed and competitive market system, through its higgling and groping, will lead the economy towards its natural rate of unemployment or its corollary, of full employment. Optimal government policy becomes a balanced budget and non-intervention, deregulated markets. It was a negation of the Keynesian approach to output and employment through targeted fiscal intervention. The supporting voice of the neo-liberals, then politically holding the 'ideological upper hand', made it easier to ignore, even destroy, the security of employment in pursuit of monetary targets. Monetarist measures adopted to lower inflation tend to be counter-productive to raising employment.

Nevile and Kriesler (*ibid*, 2002) note changes that have occurred in key economic institutions over the decades following WW2. The roles of Treasury and the Reserve Bank of Australia (RBA) had suffered an erosion of their political independence, basic to their respective powers and to the once highly respected skills and knowledge base of advice from their public servants. These shifts accompanied a major revival of monetary policy and a transformation since the early 1970s, of the theoretical understanding of money in the economy. The impacts of international deregulation of the finance sector flowed into Australia, reducing the effective power of the RBA over exchange rates for the $AU, and complicating its effective control over domestic interest rates, while a significant broadening of what comprised 'money' with rapid development of new forms of financial assets, meant acknowledging its endogeneity. In this context, monetary policy changed emphasis from control of the money supply to control over the interest rate set by the RBA.

For the interest rate to have any relevance for expenditure, the major components of aggregate demand, investment, consumption and net external flows need to be responsive to changes in interest rate or exchange rate. Kriesler and Nevile, in Ch. 2 (2003), 'Macroeconomic Impacts of Globalisation', work through the transmission mechanisms of monetary policy proposed by monetarist economists, with control over domestic interest rates as their only politically available policy option. They argue that interest elasticity of domestic investment expenditure depends on whether it is used for turning the economy out of recession or out of an overheated state: is it trying to push the string or pull it? Changing interest rates may act on the composition of savings assets but has indicated little effect on the aggregate of domestic savings. The presence of lags in outcomes of monetary policies introduces further uncertainties which can impact on the real economy. Nevile and Kriesler (op cit., 2002) trace the sites at which the RBA's interest rate decision has some influence and chart the potential entrance points of lags.

The nature of the current account on the balance of payments indicates another potentially significant component of effective demand; is government debt held

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domestically or is it foreign debt? Subordination of control of the (Australian) domestic finance sector to the power of global finance puts pressure on the RBA to co-ordinate its interest rate setting with its target currency and inflation rates. The effects of interest rate changes on the currency rate are ambiguous, depending first on the intended interest rate differential being realised and sustained, and then on foreign investors' expectations about future activities in the global finance market, for example, what currencies will do next. And on speculation. Following the global collapse of fixed exchange rates, and of the international controls over shifting of capital, owners of financial assets were able to exploit the largely unregulated markets. Illegal trade in humans and goods also developed.

The post-Keynesians include a role for monetary policy, understood within an analytical context in which monetary variables act through expectations on effective demand. In this context, the orthodox separation between the dynamics of money and that of the real variables is replaced by a framework that acknowledges both.

Global finance

Ch. 3 by Kriesler, Nevile and Harcourt (2013) 'Exchange rates and the Macroeconomy in an Era of Global Financial Crises, with Special Reference to Australia' revisits the arguments of the opening chapter concerning monetary theory and its practices, focussing, 10 years later, on the global power of financial capital over domestic economies. As the title suggests, such crises are seen as not uncommon in a world in which the magnitude and the pervasive impact of the 'globally integrated financial sector', can over-ride or frustrate the economic plans of individual countries.

An insistent feature, a process underlying many of the local and global economic outcomes of this deregulation, has been the post-war rapid globalisation of corporate capital, multi-nationals, forming monopolies or cartels, able to target countries as potential puppets. This globalisation of international trade enabled countries previously excluded by the nature and scale of their domestic production and markets, and by access to finance from foreign investors, to grow. Through foreign investment, third world economies became participants, albeit constrained by their lenders' authority, in the developed world of international trade. They provided cheaper, often unregulated, access to resources and labour and with expanding local production and employment, eager markets for expanding consumption expenditures. Those with large holdings of capital developed the power to remove constraints on global exchange rates and so on local interest rates. For the poorer nations, it meant an effective loss of State control in their domestic finance sector. Even 'foreign aid' is often placed by the donor into activities of little benefit to the recipient country and at the cost of more essential projects.

With this combination of endogenous and unregulated money comes the facility to deliberately engineer crises. Financial assets are able to move untraceably to gamble on currencies and trade in illegal commodities. Able to exploit highly mobile capital, integrated organisations of capital can overwhelm the global financial world by their judicious buying and selling, destabilising currencies and disturbing domestic institutional practices or laws. The gambling losses of financial asset dealers can have devastating consequences for the populations of poorer nations as their currencies collapse and repayment of already large external and internal debt becomes completely out of reach.

In Ch. 14, 'Corporatism in Australia', Kriesler and Halevi (1995) describe the fate of the Australian economy leading up to and during the later 1970s-80s, by which time policies and practices of the economy had accommodated some of the effects of deregulation of international finance. Australia's export sectors were severely disrupted by revaluations of the $AU at a time of domestic inflation as global oil prices increased. Up to this period, Australia had maintained a surplus on its foreign trade account. Evidently a developed capitalist country with its history of full employment and surplus trade accounts since Bretton Woods was not immune to the effects of global financial practices.

The implications of the global finance sector for the autonomy and effectiveness of domestic economic policies are explored in Kriesler and Nevile (op cit., 2003) written 8 years after their Ch. 14, cited above. The authors illustrate the impact of global finance over Australia's domestic economy, for which the foreign trade–linked sectors remain a significant part and the stability of exchange rates is crucial. They instance the instability of $AU during 2000 despite this being a period of stable and positive 'economic fundamentals'. They observe again that financial market valuations seem to have little necessary connection to the fiscal decisions of the state.

The rapid ease of shifting funds, both legal and illegal, and its potential rewards to the players remains a major destabilising force in the twenty-first century. Understanding the dynamics and possible measures to control the financial sector requires a global perspective and a country-specific knowledge of domestic practices.

Kriesler and Nevile (ibid) also point to the danger to economic growth and employment of having to limit fiscal policies with an eye to external constraints. Despite Keynes's post-war concerns for both trade surpluses and deficits to be seen as problematic, it has been only the latter which threatens the responsibility to act. Typically this has meant contractionary macroeconomic policies, and the outcome is domestic depression and unemployment when a longer run perspective could restructure production accordingly in potentially exporting sectors.

Not surprisingly, these post-Keynesian authors stress the urgency of returning to a regulated international finance sector, suggesting policies in all financial markets and considering taxes based on the principles of a Tobin tax. Even in the current political fog, scandals, widely exposed, in the practices of major domestic banking and finance corporations, have not been sufficiently shamed to enable the government to re-regulate the sector. Kriesler, Nevile, and Harcourt (ibid) report on a Special Session of UN in 2000 where a general agreement was reached that deregulation of the international finance sector must be reversed, replacing responsibility for decisions that affect social and economic development from the market to the state.

Halevi and Kriesler, in 'History, Politics and Effective Demand in Asia' (Ch. 23, 1998) look to the development of Australia's neighbouring regions, including Japan, and to the role of US patronage from 1947 in shaping this new capitalist state of Japan. They shift the analysis from its more usual perspective of supply conditions, to focus on the role of effective demand and the emergence and expansion of domestic and regional markets since the 1960s. Since then, US intervention has facilitated, and engineered this process, politically, strategically and specifically determining what and where and when industrialisation took place. Halevi and Kriesler draw on Pasinetti's analysis of vertical integration to explain this link between Japan's industrial structure and the composition of demand. Almost 10 years on, Halevi and Kriesler (Ch. 25, 2007) in 'The Changing Patterns of Accumulation and Realization in East Asia since the 1990s' take another study of the region to include the impacts of China's increasing international presence. They refer to their earlier work (op cit., 1998):

> "There we concluded that Japanese surpluses with the rest of Asia created an effective demand sink, leaking demand from that region and promoting strong stagnationist tendencies. Had the region been autarchic, the effect of this would have been to lead to low growth levels, with high levels of unemployment. The tendency was counteracted by the region's strong trade surpluses with the US, which acted as an external source of effective demand." (p. 352).

Their approach in this study is inspired by stagnationist ideas, introducing the tradition with Rosa Luxemberg and some of the leading Marxist writers of the twentieth century,

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> "culminat[ing] in the writings of Kalecki and Baran and Sweezy. The essence of this view is that there are long run stagnationist tendencies in capitalist economies caused by the fact that the growth rate of productive capacity (i.e. the rate of accumulation) is faster than the growth in the level of effective demand." (340).

They draw on Pasinetti's *comparative productivity change advantages* (italics in original) to demonstrate how stagnation can occur unless the benefits of productivity growth can be retained in the domestic economy to increase real incomes to provide higher domestic effective demand. Pasinetti developed the comparative productivity principle to demonstrate how the benefits of productivity growth in an exporting industry can be transferred to the foreign buyer, away from the local markets, via a fall in the real terms of trade. The authors integrate much historical information of political and economic changes with analytical understanding, providing some clarity to a complex subject. They conclude that China may have affected the trade patterns within the region and provided new external markets but the region still needs US markets to alleviate their stagnationist tendencies. However, they place doubt on the future of the US providing sufficient external demand in the region.

Halevi and Kriesler, 'Stagnation and Economic Conflict in Europe' (Ch. 24, 2004) examine the experience of Europe as it changed its forms and connections from a partly unified economic entity, as the European Community, to one in which regional histories of financial flows and commodity trade continue to dominate, a single currency that is not used domestically in some countries, and domestically controlled economic policies. They dissect the many potential gains from a creating a common market with coordinated production, and the ironies of these not being realised. It is another example of a method that blends the historical 'data' with the analytically formed explanations.

Effective demand and investment

Keynes proposed that the crucial component of effective demand was investment decisions for which the certainty and, in particular the uncertainty, of expectations was instrumental. Nevile and Kriesler (*ibid*, 2002) discuss several common critiques of fiscal policies. The popularly intuitive idea of 'crowding out' depends on fully employed inputs and capacity, and an exogenously managed and constant money supply, if the effect of the extra spending is to increase interest rates. In the absence of either of these, the argument becomes irrelevant. If interest rates rise, the policy acts to redistribute the government's planned deficit-spending from the State to the highest bidders in the private sector, whose objectives may be quite different to those of the original publicly funded projects. Their review of Australia's experience finds no significant empirical support for crowding out. Changes in exchange rates might have price effects, but the expenditures on the relevant goods tend not to be price elastic.

Kriesler, Nevile and Harcourt, (op cit., 2013, 'Ch. 3), question whether the compromise theory, the efficient markets hypothesis, which acknowledges elements of uncertainty but then assumes that the stable elements of the economy provide sufficient confidence to act, is useful for understanding crises. These authors conclude that in terms of its own analysis, the efficient markets hypothesis, crises can only occur in exceptional circumstances.

Keynes noted that crises, the sudden and general collapse of the economy, were far more dramatic than changes of upturn. Kriesler, Nevile, and Harcourt (ibid) distinguish between the trigger, the contingencies which seem to tip the economy unexpectedly into crisis, and those more enduring features of capitalism causing the change, which require an "analysis of the nature of a capitalist economy". Kaleckians see capitalist dynamics as a succession of short run endogenous cycles of cumulative causation. A cyclical process of investment creating employment and incomes, at the same time creating more capacity, without a sufficient market

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for its potential produce, so that private investment, effective demand, is cut back. The long run becomes a path-determined succession of short-run processes.[2]

Fiscal policy constraints

The quiet abandonment of full employment as the main policy priority and the emphatic urgency of fiscal prudence advertises the movement of power and vision in the political sphere from the social democrat to the neo-liberal. Continued state fiscal intervention is seen to require long-term financing, generally through taxes, which introduces another tension between state and capitalist.

In Ch. 7, 'The ABC of G and T' (2013), Harcourt focuses on implications of the budget policy thinking of most advanced capitalist economies. These arise from the generally unchallenged criteria adopted "[over] the decades of two fetishes: deficit size and aversion to debt .... [T]hese criteria ... have serious negative effects on equity, efficiency and levels of activity and employment" (ibid, p. 92, 93). He suggests alternative criteria.

The fear-of-debt fetish is an easy one to invoke; with the aid of a misleading media popular support for fiscal constraint seems intuitively obvious, despite its lack of theoretical basis. But to understand the implications of government debt, these headline bulletins need to be disaggregated. The debt to income ratio needs to be disaggregated into external and internal debt on the one hand and then the nature of internal debt, to distinguish between capital and current outlays, disingenuously disaggregated by a recent (conservative) treasurer into 'good' and 'bad' debt, on the other.

If the debt, internal and external, is to finance projects ultimately contributing to long-run growth, infrastructure investment for example, the debt to income ratio is expected to fall as output grows. External debt needs to be serviced, ideally by higher export earnings, or further borrowing and, Harcourt points out, "[t]hese [debts] are not necessarily "bads", it all depends on how the proceeds when spent contribute to overall growth in the economy" (*ibid*, p. 93).

On the revenue side, taxation has two roles: the tax structure needs to be mindful of the state's social and political responsibilities; "[it] should reflect philosophical views on equity and incentives designed to affect the structure of the economy" (*ibid*, p. 92). Secondly, taxation, as a structure, can act on levels of aggregate demand; but "[s]ervicing internal government debt constitutes transfer payments between those who hold it and those whose taxes are used to pay it" (*ibid*). Should this generate unwanted redistributive effects, of income or production, these can be addressed through changing the relevant rates.

The overall macro effect of fiscal policies on the economy will depend on reactions of spending behaviours of each of the groups affected, both immediate and, with uncertainty about future government policies, commitments into the future. However, Harcourt points out, Australia's debt to income ratio is not alarming by world standards, and if fiscal policies generate the expected growth, the debt to income ratio will fall anyway or approach a liveable with limit.

Wages and employment

The behaviour of wages and employment are important issues for this group of post-Keynesian economists and are relevant to a range of social and economic problems. Where the society is structured by that respect only earned by owning something, specifically, a marketable labour service to sell, it will be faced with the indignity of those without. The expanding body of 'working poor' hovers uncomfortably with the 'underemployed' as governments try to camouflage the reality of distress and poverty using the language of suspicion and shame.

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The concern with employment is given a broader context in an essay by Nevile and Kriesler (Vol. III, Ch. 15, 1998) 'Full Employment, a Neglected, but Indispensable and Feasible Human Right.' Here, the authors declare their interests and reproduce the UN 1948 *The Universal Declaration of Human Rights*:

> "Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment . . . Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity and supplemented, if necessary, by other means of social protection" (*ibid*, p. 202).

This concern was formalised in Australia in 1907 in the Harvester Judgement, with the introduction of the "basic wage". Dalziel and Nevile (Vol. IV, Ch. 33, 2013) 'Theorizing About Post-Keynesian Economics in Australia: Aggregate Demand, Economic Growth and Income Distribution Policy' describe its history, noting that calculations for this minimum wage were based on moral grounds of human rights to a living wage rather than economics and fiscal constraints.

Harcourt (Ch. 8, 2012) 'The Systemic Downside of Flexible Labour Market Regimes: Salter Revisited' introduces into the discussion of wages the distribution of economy-wide productivity gains. He describes Wilfred Salter and Eric Russell who, in 1959, were appearing for the Australian Trade Unions in the Basic Wage case. They advocated a strategy of complementary policies including the distribution of gains from productivity increases to be averaged across the economy and shared between all wage earners. The background analysis focussed on the process of introducing new technology into a site where the previous technology was still useful. Salter described new investment, embodying improved techniques, being discouraged away from low productivity and attracted to high productivity industries thereby improving the overall rate of growth of wages; to be successful, this would require flexible markets for resources, including labour and continuing high rates of investment. It is a potentially positive outlook of cumulative causation and Harcourt reminds the reader of Kalecki's (1943) argument that reaching full employment can be straightforward, but political opposition tends to prevail.

Phillips curve?

The shift in policy priority to inflation targets was accompanied by a theory that there exists an enduring trade-off between inflation and unemployment: the Phillips curve. It implied that all unemployment was voluntary. Simplistic, and aggregate, and politically transparent, it meant that policies to address inflation must act against employment.

In their essay 'A Critique of the New Consensus View of Monetary Policy' (Ch. 4, 2005), Kriesler and Marc Lavoie review the passage of the Phillips' curve as it responded to successive criticisms and developed its 'new consensus'.

The basic proposition is familiar: namely, that over the long run the economy, if left undisturbed, will reach its equilibrium, its 'natural' rate of output and employment. Monetary variables might aid the journey to this point but they play no role in what it actually is. Kriesler and Lavoie (ibid) find that evidence for the accommodating variations of Phillips curves is possibly suggestive of this relationship appearing only at very high values of inflation; otherwise it is non-existent. Furthermore, they identify that the impact of fiscal uncertainty as it undermines domestic productive investment is to dramatically compound the effects of decisions in both sectors, 'money' and 'real', through cyclical processes of cumulative causation. Kriesler and Lavoie suggest "amendments", shifting the analysis to pricing, which in post-Keynesian theory describes a situation of unutilised capacity and constant costs plus a mark-up, so that up to capacity further employment will

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not affect prices. They recreate its basic equation with "post-Keynesian modifications ... [to] fundamentally change the model's conclusions. [It] will yield Kaleckian results, with important roles for fiscal and monetary policy in influencing the level of output, capacity utilisation and employment" (p. 67). They also observe that inflation may itself be caused by high interest rates, a relationship evident during the early 2020s.

Nevile, in 'How Voluntary is Unemployment? Two Views of the Phillips Curve' (Ch. 10, 1979), also examines this approach to unemployment. He challenges the assumptions of the underlying theory about labour markets, and the implication that all unemployment is voluntary. While it might describe a short-run association, it is only vertical in the long run. He introduces lags into his data analysis to develop his critique of the Phillips curve theory. Using Australian data from 1954-5 to 1976-7, he demonstrates that, on the contrary, all unemployment was involuntary. From this result, he "builds a case for using fiscal policy to increase economic growth and reduce unemployment." Twenty years on, Nevile (Ch. 12, 2000) 'Can Keynesian Policies Stimulate Growth in Output and Employment?' revisits the feasibility of post-Keynesian fiscal measures (see Introduction p. 10).

The basis of Nevile's approach to unemployment appeared 17 years earlier when he published the first macro-economic model of the Australian economy, 'A Simple Econometric Model of the Australian Economy' (Ch. 11, 1962). He "pictured that economy of the time as one with the behaviour of an economy on Harrod's warranted growth rate." (Introduction. p. 9). He developed it, "much expanded and improved" (ibid) for Menzies' *Vernon Report* (1965). Nevile subsequently developed this macro model to address contemporary economic and political issues, some of which follow in Vol. II.

Ch. 17, 'The Share of Wages in Income in Australia' (1967) examines the measurement of wage and profit shares, focussing on problems of understanding aggregate measures of productivity growth and shares of wages and profits. Aggregate measures can produce misleading advice. He refines the aggregate data to demonstrate how the criteria for deciding which sectors or industries to include or exclude from this aggregate will also give different results. Ch. 18 (1974) 'Inflation in Australia: Causes and Cures', reminds the reader that inflation in Australia is complex and there cannot be one single or simple policy to remedy it. It is a warning to naïve applied economists to understand their data and whether it represents what they need.

Ch. 19 (1990) 'The Effects of Immigration on Unemployment' and Ch. 20 (2010) Kriesler and Nevile 'The effects of the Immigration of Low-skilled Workers on Unemployment' written 20 years on, consider the impact of those factors governing economic growth. Classical economists saw constraints from supply factors; population growth and productivity growth. Translated to the 21st century, it is immigration and technological change and their impact on unemployment from over-supply. Nevile (*ibid*, Ch. 19) considers the circumstances in which the increase in population can add to productivity. Kriesler and Nevile (op cit.) take issue with the similar, popular view that immigration of low-skilled labour will increase unemployment and lower wages. Their intent is to replace the idea that employment is determined by the level of wages and instead see it from a post-Keynesian position, arguing that employment relies on the level of effective demand. These essays provide an analytical and historically informed response to the headline, populist slogans.

'Buffer stock' employment

Kriesler and Halevi, in their essay 'Political Aspects of "Buffer Stock" Employment' (Ch. 9, 2001), address "a further substantial cost of unemployment [which] is the loss of social as well as economic identity associated with joblessness" (*ibid*, p. 104).

Their analytical point of departure is Kalecki (1943), the relationship between economic control by the private sector and employment: that "although the achievement of full

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employment is essentially an economic matter, its maintenance becomes a political one" (*ibid*, p. 107). Both Kalecki and Keynes looked to state intervention through investment to support higher levels of employment, making full employment achievable. But Kalecki argues that with its systemic political power the capitalist class intervenes by reducing its investment spending and operating at under-capacity. Sustained full employment could provide wage earners with an expectation of job security and growing standard of living, including the development of social institutions that support their now embedded expectations. Capitalism needs the certainty over its future economic environment to make investment decisions. It needs to control unemployment to manage labour and deliver a confident investment presence to deter government from its own adventurous fiscal intervention.

Kriesler and Halevi (*ibid*) address the presence of political interference in the determination of wages and unemployment. They evaluate a form of Job Guarantee, reconceiving unemployed labour as a 'stock', receiving a guaranteed income as they move into 'buffer-stock employment' provided by the state. The potential threat of a market-determined outcome for labour, to both income and personal distress, is diminished. A Phillips curve analysis would conclude that (the 'natural rate' of) unemployment would have to be higher for its effect on inflation to be effective (*ibid*, p. 105). However, Kriesler and Halevi (*ibid*) reject any direct causal relationship between unemployment and inflation in the usual economic conditions of excess capacity and labour.

They also point out the political dangers of a longer-term form of a Job Guarantee scheme. A State, representing capital and acting in its interests, is able to collude with it. In this context, the benign appeal of the buffer-stock scheme is threatened by its more disturbing potential as a 'State managed labour consortium' (*ibid*, p. 106). The authors describe such a State, acting on behalf of capital, which is able to develop a State-owned and managed military sector –a military-industrial complex worked by otherwise unemployed people. The importance of countervailing power through institutions representing labour has long been recognised as crucial with respect to large and global monopolies and cartels in the private markets and from the State acting for capital. Kriesler and Halevi (*ibid*) warn that a separate organisation of labour is crucial to confront the power of corporate State and private sectors. They point out further sites of antagonism between private and public sectors over investment decisions. The political philosophy and culture of the private sector in pursuit of a laissez-faire economy dictates against any public presence which might compromise profits or, perhaps more importantly, political and economic control. The effects of fiscal policy measures may not always impact directly via one market or sector and may be ambiguous. The capitalists need to hold the power over policy boundaries and be able in any way to thwart fiscal policy intervention, even more so where uncertainty is high. The threat of uncertainty and instability does not require a situation of no intervention; it is a takeover of both objectives and controls from government regulation by those of integrated, global finance.

Kriesler and Halevi (*ibid*) ask whether the suggested employment scheme "could change the dialectics of capitalist economies, reforming class relations, so that full employment becomes permanently achievable" (*ibid*, p. 101). This implies longer-term changes in the institutions and practices directly relevant to employment and living standards to address the fundamental issues of capitalist societies.

'Buffer stock' schemes can be valuable for shorter-term, counter-cyclical employment problems and post-Keynesian theory sees a 'long run' in the dynamic of short-run endogenous cycles. Guaranteed employment schemes that offer the possibilities of longer term employment and training and pay a basic wage, could be a politically feasible way of addressing the stigma and uncertainties of systemic unemployment and poverty?

The economic costs of surplus labour are borne by public funding of state social safety nets and by the communities and individuals who make up the affected. Public institutions

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created through the government for those marginalised by the 'labour market', along with supported charities, have a history of discontinuity, quietly disbanded by defunding and their successes reconceived by the language of 'welfare dependency'. For post-Keynesians employment ultimately relies on effective demand, a different policy direction with historical success.

Conclusion

Together these four volumes are an excellent source for any reader interested in an alternative approach to policy strategy. They are an excellent basis for one, or several themed courses on post-Keynesian economics and policy. That they are *Essays from Down Under* suggests that the authors address the interaction between the economies of domestic and neighbouring regions. *Down Under* also suggests differences within the international post-Keynesian group arising from different adaptations of Keynes's *General Theory*, specifically, to his treatment of money, and the basis for decisions to invest. Similarly, there are differences in their take-up of Kalecki's analyses of the power of class. Ultimately and collectively, the essays clarify the fundamental differences in social philosophy and subsequent analysis between a post-Keynesian and a neo-classical-based approach.

Post-Keynesian Essays from Down Under educates and advocates its ideas and their advisory potential. A collection of essays in four volumes, each presenting a particular dimension to this body of thought, intertwined with a common vision of what constitutes a good society and what its existing cultural practices and institutions can accommodate or change. Each character reappears in many of these essays, sometimes as a vigilant presence and sometimes more instrumental as the central character in the selected plot. *Essays* demonstrate the insights and relevance of its analyses, in a global and domestic context, adopting a methodology appropriate to their particular intent. And so we see the openness of the post-Keynesians-down-under economists to practising a 'horses for courses' approach rather than pursuing a "grand unifying theory".

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Notes

1 Unless specified, all references to chapters or pages are to Vol. II.

2 Halevi and Kriesler (Vol. I, Ch. 11, 1991) in 'Kalecki, Classical Economics and the Surplus Approach' examine several other classical 'visions' to identify their implications. They differentiate Kalecki's short-run analysis in which adjustments to capacity utilisation are basic to the dynamic, from the surplus/Sraffian approach based on long period analysis and its dynamic being a tendency to equalisation of the rate of profits. This means that changes in their path, cyclical crises, do not interfere with the roles for production of the surplus and its distribution achieving their ultimate destination.

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