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KALECKI'S CHALLENGE TO ECONOMIC ANALYSIS: RETHINKING THE MACRO-MICRO DISTINCTION

In Memoriam



Julio Lopez Gallardo
(1941-2020)

Outline

- 1. Motivation:** is economics fit for purpose?
- 2. Recent history of capitalism:**
 - Financialisation, the Great Recession, the Covid-19 crisis
 - Global macroeconomic imbalances
- 3. A challenge to economic analysis:**
 - ‘Micro’ processes, ‘Macro’ outcomes – and *vice versa*
 - The state of economic analysis
- 4. Rising up to the challenge:**
 - Towards a fairer global economy
 - Beyond microfoundations: reflections on interdisciplinarity, inclusion, and decolonisation in economics

Part 1

MOTIVATION

1.1. Is economics fit for purpose?

Recent developments in capitalist economies are **multi-layered and multi-dimensional**

- Great Recession and the Global Financial Crisis (GFC)
- Deepening inequality since the 1980s
- Macroeconomic fragility and secular stagnation
- Persistent macroeconomic imbalances between ‘core’ and ‘periphery’ countries in the global economy
- Unequal impact of Covid-19 and the Covid-19 crisis

The ‘accepted’ practice of economics and the dominant paradigm in economic theory are increasingly seen as **unfit to explain these complexities**

1.1. Is economics fit for purpose?

Has economics failed?

FINANCIAL TIMES

Two experts debate the future of the discipline

Tom Clark and Chris Giles APRIL 24 2018

The New York Times Magazine

How Did Economists Get It So Wrong?

By Paul Krugman

Sept. 2, 2009

Opinion FTfm

PASCAL BLANQUE

Market narratives fail to factor in Covid-19 endgame

#Kalecki2020

Economics **Bloomberg**

Clinton: 'Trickle-Down Economics Has Failed'

Her remarks boil down to one message: She's for the little guy.

By Jonathan Allen

27 October 2014, 19:49 GMT

The New York Times

Economics, Dominated by White Men, Is Roiled by Black Lives Matter

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1.2. Rethinking the paradigm

Criticism of the dominant paradigm in economics have emerged in the public discourse and even among some mainstream economists

- No longer limited to heterodox economists

The main points of critique are:

- Belief that market mechanisms are the best way of delivering economic prosperity
- Limited role for government and economic policy: passively correcting for market failures; actively facilitating market mechanisms
- Limited methodological toolkit based on restrictive and unrealistic assumptions
- Structural barriers in the profession: the reign of 'the Top 5' journal; lack of inclusivity among the 'gatekeepers'

1.2. Rethinking the paradigm

In times of Covid-19, **the dominant approach** to economic theory, practice, and policy **is under pressure** once again

Heterodox economics is best suited to provide **a realistic alternative**, but it is **not without its problems**

- Tendencies towards class reductionism in some schools of thought
- Not immune to the issues of diversity and inclusion
- ‘Preaching to the converted’?

Repeated crises and deepening inequalities are a testament to **the need for a radical change** in economics

- But mainstream economics has managed to ‘recover’ from the GFC...

The change needs to involve not just theoretical approaches, but also analytical perspectives, methodological toolkit, epistemology, and identity of scholars

Part 2

RECENT HISTORY OF CAPITALISM

2.1. Secular stagnation and financialisation

Kaleckian and Post Keynesian economists: **widening income inequality** has been one of the key factors behind **secular stagnation** in advanced capitalist economies:

- Shareholder value maximisation and preference of corporates towards short-term financial profits (**financialisation of non-fin. corporations**; see e.g. *Hein 2012*)
- Neoliberal turn in economic policy (**financialisation of the state**; see e.g. *Karwowski 2019*)

The above processes have been linked with:

- Declining levels of **productive investment** and low productivity growth
- Rise of the financial sector via **financial deregulation & innovation**

2.2. Financialisation, identity discrimination

Trajectory of financialisation has been enabled and reinforced by the persistent of **structural inequalities** and **identity-based discrimination**

- USA: Historical legacy of redlining, codified racial & gender discrimination

Financialisation and **predatory financial inclusion** in the 1990s & 2000s

- The rise of structured finance → subprime homeownership; faltering wage growth → consumer debt to sustain living standards
- Differences in returns to wealth across households (*Wolff 2014; Szymborska 2019*)

2.3. Crises and structural inequalities

Asymmetric impact of crises across gender, race, and class

- **Great Recession:**

- Low income individuals, women, Blacks and Latinxs were “the last in, the first out” (*Young 2010*);
- Evidence of greater & more lasting losses for Black households from foreclosures (*Henry, Reese, Torres 2013*)
- Stagnant real net wealth and income growth for households at the bottom of the income distribution, Black and Latinx households, particularly Black & Latina women

2.3. Crises and structural inequalities

Asymmetric impact of crises across gender, race, and class

- **COVID19:**
 - Disproportionately negative economic & health outcomes for Blacks, women, women of colour (*Gould & Wilson 2020; Williams & Cooper 2020*)
 - Employment insecurity and precarity of low-income workers has increased their exposure to Covid-19 (fewer possibilities for remote working, greater likelihood of being laid off...)
 - Signs of deepening inequality as wealth of US billionaires expanded by nearly a third during the pandemic (*Collins, Ocampo, & Paslaski 2020*)

2.4. Analytical dimensions of global inequality

Global inequality systemically embedded in the intl. monetary system

- **Core-periphery** dynamics (*see Amin 1974, Kvangraven 2020*)
 - Structural adjustment, limited fiscal policy space: promoting “**competitiveness**” through low input costs
 - **External indebtedness** (*see Bonizzi, Laskaridis & Toporowski 2019*); currency hierarchy (*see Kaltenbrunner 2018*)
- Restricted capacity to deal with crises and with the direct and indirect impact of Covid-19 in the Global South

Collaboration with Julio Lopez: global inequality and Kalecki’s open economy macroeconomics (*for the latter see e.g. Lopez & Assous 2010*)

2.4. Kalecki on global inequality

Kalecki emphasised the fallacy of restricting wage growth as a way of promoting competitiveness of the domestic economy

- **Neoclassical econ.:** a fall in wages facilitates expansion of output and employment through:
 - an improvement in the trade balance (expansion of exports)
 - higher demand: unemployment is “absorbed” by foreign trade
- **Kalecki:** there is additional effect of wage reduction, which inhibits (or even counteracts) output expansion
 - Lower wages do not affect the price of imported inputs
 - Purchasing power of workers is eroded: negative effect on industries producing wage goods

2.4. Kalecki on global inequality

The final outcome of a fall in wages on domestic output is uncertain: it depends on the extent to which the volume of export increases

Kalecki was sceptical about the elasticity of exports in this case:

- Under imperfect competition firms may not pass on the reduction of costs to consumers if the (domestic) price of imports does not fall
- Increase in degree of monopoly; higher profit share in national income
- **Deepening inequality**: income gets redistributed away from workers
- Fall in aggregate demand, which may offset any gains in trade balance

Similar mechanism operates in case of currency depreciation:

- However, nominal wages remain the same while prices of imported capital inputs rise due to depreciation → eroded real wages

2.4. Kalecki and the intl. monetary system

Kalecki's appreciation of the interaction between the 'macro' processes of trade and the 'micro'/'meso' effects exposes limitations of the present approach to international economic cooperation

Neoclassical policies recommending wage flexibility rely on expansion of exports: but output may contract if income gets redistributed away from wages towards profits

Neglect of the multidimensional analysis in economic theory and policymaking contributes **to reinforcement of the core-periphery dynamics** in the global economy

Part 3

A CHALLENGE TO ECONOMIC ANALYSIS

3.1. 'Macro' processes, 'Micro' outcomes

Recent history of capitalism is an example of the **complex, multidimensional nature** of business cycles, economic growth, development, and inequality

To understand how inequality and macroeconomic fragility reinforce each other, it is crucial to analyse the link between the **'macro' realm of systemically-embedded privilege/disadvantage** and the **'micro' (and 'meso')-level determined identities**

Kaleckian economics challenges the neoclassical claim that inequality and growth can be explained by differences in human capital and marginal contribution of each agent to the production processes

It elevates Keynes's emphasis on the role of aggregate demand in determining national income by **explicitly considering structural inequality**

3.2. 'Micro' processes, 'Macro' outcomes

One of Kalecki's many contributions to economics is his embedding of income distribution at the centre of the analysis of national and global economies

- Power struggle between capitalists and workers key in explaining investment, wages, employment, and output
- But macroeconomic processes also play a role in reproducing this class-based inequality (see e.g. 1943 "Polit. Aspects of Full Employment")

Through the lens of Kaleckian economics, one cannot explain 'micro'-level differences in human capital without looking at how these are systemically reproduced by 'macro'-level processes

3.3. The state of economic analysis

Kalecki's framework encourages looking beyond the presently 'accepted' boundaries of economic analysis:

The 'micro' and the 'macro' processes / outcomes are deeply intertwined

- Can't explain 'macro'-level crises without understanding the role of 'micro' / 'meso'-level disparities across classes, gender, and race
- At the same time, 'macro'-level developments (business cycle, policy) reproduce and reinforce these 'micro' / 'meso'-level inequalities

A fundamental challenge to how economics is conceptualised, practices, and applied today

3.3. The state of economic analysis

Insufficient appreciation of this intertwined nature of business cycles, inequality, and development among economists is one of the reasons behind the current crisis in the economics profession

Mainstream approach to this problem focused on introducing **microfoundations** to macroeconomic analysis is not fit for purpose

Even when allowing of heterogeneous agents and elements of money endogeneity, flawed assumptions remain at the root:

- Fallacy of composition → neglect of systemic dynamics
 - Optimising behaviour → neglect of group dynamics, relative behaviour, fundamental uncertainty
- Leads to '**rationalising**' of discrimination, precarity, and inequality

3.3. The state of economic analysis

Heterodox economics encompasses a wide range of insights which are better suited to deal with this ‘micro’/‘macro’ challenge...

...but often, these insights develop in parallel to each other, with insufficient dialogue between different schools of thought, e.g.:

**Post Keynesian /
Kaleckian economics**

Complexity economics

Old institutionalism

Social economics

Feminist political economy (*Elissa Braunstein, Stephanie Seguino, Brigitte Young...*)

Stratification economics* (*Sandy Darity Jr., Patrick Mason, Nina Banks, Darrick Hamilton...*)

Part 4

RISING UP TO THE CHALLENGE

4.1. Do we need a new Bretton Woods?

Similarities with 1944: Persistence of global macroeconomic imbalances and inequality; weakened capacity to deal with crises (and Covid-19) in many countries

Differences with 1944: Rising external debt levels and restricted domestic policy space in the Global South

- Integration into the global economy based on capital flows and exchange rate liberalisation (impossible trinity)
- Environmental injustice
- Attitudes to government's role in the economy

4.1. Do we need a new Bretton Woods?

If the present Bretton Woods institutions were to implement a similar agreement today, it would likely perpetuate global inequality

Potential agreement on global economic cooperation would likely be based on the neoclassical approach to policymaking:

- fiscal discipline in the long run,
- domestic and external market liberalisation,
- financial deepening within and across countries,
- passive rules-based policy measures.

In the current circumstances, proposals for global economic cooperation need to be based on radically different ideological foundations

4.1. Towards a fairer global economy

Kalecki's idea for an international **monetary system based on full employment** (complementary to Keynes' idea of bancor and the International Clearing Union):

- Countries pursuing an export surplus allowed to accumulate unlimited amounts of gold or bancor
- Countries needing an import surplus for purposes of development, and those with persistent balance of payments deficits, should be safeguarded from long-term international liquidity problems
- International Investment Board providing long-term development loans

Political responsibility of key decisionmakers in the global economy

4.2. Going beyond microfoundations

“First, do no harm”: the call for microfoundations in mainstream economics should be abandoned

- Instead of inventing new “tools”, the mainstream paradigm should become more inclusive of approaches that have successfully addressed challenges of systemic inequality, analytical complexity

Reform is not enough: the profession needs a fundamental and radical rethinking of what economics is, what its object and tools of analysis are

- Challenging the power relations within the profession
- Interdisciplinarity at the roots of investigation (conceptually and methodologically)

→ To that end, the ‘macro’ / ‘micro’ distinction in economic analysis is detrimental

4.2. Going beyond microfoundations

In **heterodox economics**: a close dialogue between its schools of thought
←→ Applying knowledge of historical thinkers into the modern context

Example from my own research: rethinking the conceptualisation of households in Post Keynesian/Kaleckian economics and updating the dichotomous division into workers/capitalists:

- *“Rethinking inequality in the 21st century – inequality and household balance sheet composition in financialized economies”*, [CAFE WP #3](#)

Analytically, methodologically, and politically, this is not an easy task...but this is a direction for the new generation of scholars

The role for the established scholars in heterodox economics is to facilitate that dialogue, build bridges, open minds

4.3. Diversity in economics *(in lieu of conclusion)*

A challenge faced by both mainstream and heterodox economics is to ensure **inclusivity of scholarship**:

- Identity of authors
- Plurality of theoretical and methodological approaches
- Tackling eurocentrism through efforts to decolonise economics (epistemological diversity)

Addressing one dimension of diversity is not enough: diversity of approaches needs to be complemented by the diversity of scholars' identity and epistemology, and *vice versa*

4.3. Diversity in economics *(in lieu of conclusion)*

Diversity of identity broadens the scope of what issues are considered to be part of “economics”

- Papers with at least one Black author were more likely to report a finding of racial discrimination than papers with no Black authors (*Mason, Myers, Darity 2005*)

So far, mainstream economics has been more actively researching & discussing the issue

- But, their approach to diversity (focus on individual preferences, mentoring of women) is inadequate (see [Ariane Agunsoye's blog](#), [Claudia Sahm's blog](#))

4.3. Diversity in economics *(in lieu of conclusion)*

Decolonising economics means to fundamentally rethink the epistemological basis of the profession to challenge its eurocentrism:

- Historical processes of colonialism/imperialism led to limited understanding of what counts as expertise
- In Economics there are strong claims to merit, neutrality and universality
- Heterodox Economics also suffers from this problem
- Need to actively acknowledge that theories from outside of the West can provide fruitful starting points (e.g. [Comaroff and Comaroff 2012](#))



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THANK YOU