The Missouri Valley Economics Association
Kansans City ---Allis Plaza Hotel.
February 23, 1989
5:00-6:15 P. M.

Post-Keynesian Economics
∫ Marginal Keynes
Ch 17, 12. Criticized
both IS-LM + Monetarism
Emphasize Uncertainty, ... cash flows + also Sraffa Kalecki + emphasizes p-g.c

BEYOND POST-KEYNESIAN ECONOMICS

Hyman P. Minsky
Professor of Economics
Washington University
St. Louis , Mo. 63130

I. A Brief Background to Post-Keynesian Economics

Keynesian Economics of the Late 60's. The IS-LM augmented by a Phillips curve. The dominance of Large scale structural models. The great SSRC model building enterprize.

Critique by Tobin + Lucas

THE ESSENTIAL NEOCLASSICAL THEOREM: The flaw in capitalism is trivial. The equilibrium defined for real wages will be the economy's equilibrium if markets are free to adjust, for the real balance effect will transform price level deflation into increases in real aggregate demand. The reason why fiscal policy or other interventions may be necessary and wise is that labor suffers from some money illusion. All would be well if only labor would behave and not stick at some above equilibrium real wage.

The American Post Keynesians

The American Post-Keynesian response conformed to the dictum Keynes set out in the last sentence of the first chapter of the General Theory: the one paragraph chapter. This dictum is that relevant theory must be consistent with " ..the characteristice of the ...economic society in which we actually live.." In my view this means that we must pay carefull attention to the actual nature of the financial system, the interrelations between finance + income flows

Central role of It

The Cambridge Post Keynesians

The English Cambridge Post-Keynesians denied the validity of the IS-LM formulation but they were interested in exploring the longer run characteristics of the formalization of economic activity that keynes introduced. Led to unfortunate theorizing like kaldors assumption of full employment.

THE ESSENTIAL POST-KEYNESIAN THEOREM: The flaw in capitalism is significant and inherent in the nature of the beast. Markets cannot assure that capital asset prices are sufficiently in excess of output prices so that the investment necessary to achieve full employment is forthcoming. Furthermore the adjusments in free product, labor and financial markets that follow upon unemployment are likely to increase the shortfall of aggregate demand, to make things worse not better.

II. The New Classical and the New Keynesians

New Classical economics as a flash in the pan: ended up proving too much. Expectations as learning

New Keynesian Results

Modeling conventions and theorem divergence.

My Rabbi is holier than your Rabbi:

A silly evening at Paddy Fruchts when a young David Fand and a young Robert Solow argued whether Milton Friedman or Paul Samuelson was brighter.

III Chaos or complex dynamics:

The resurection of the second order accelerator multiplier models with explosive coefficients. Quotation from Baumal and Benhanin. Simulation and devlopments in understanding non linear and non solvable dynamic systems has brought new life to the study of set ups that yield nasty results.

$Y_t = (a + b)\ Y_{t-1} - bY_{t-2}$ becomes

$Y_t = A_1 u_1{}^t + A_2 u_2{}^t$ where the A's are transformations of the initial conditions (Y_{t-1} and Y_{t-2})and the u's are transformations of the structural coefficients (a and b).

IV Debt deflation processes The government as the good guy the cavalry riding to the rescue.

read Irving Fisher

V A New Institutionalism

What is good enough will do for one date is not good enough for another

The propensity to avoid and evade

The need for effective intervention and the attenuation of any inherited policy regime as it is used. End up with smart operators and dumb regulaters.

VI Conclusion. The easy times for post wart capitalism may be over. There was a terrible wastage of our collective capital during the Reagan years.

It is perhaps ironic that just as Heilbrunner was celebrating the victory of Capitalism over Communism in the pages of the New Yorker, an embrionic debt deflation was spreading through the United States.