BOOK REVIEWS

John E King

Advanced Introduction to Post Keynesian Economics.

Reviewed by Geoff Dow

Post-Keynesian political economy has in recent times established itself as the most exciting and rewarding strand of heterodox political economy. This was not always the case insofar as heterodoxy (non-mainstream approaches to economic analysis) predates Keynesian perspectives by at least several centuries and incorporates sociological, institutionalist, mercantilist and religious forms of enquiry. Controversies still dominate, as evidenced in the prolific contributions of other ‘Australian’ post-Keynesians - Geoff Harcourt and Peter Kriesler. This short book however is valuable and timely since it gives us a chance to take stock of the field so far and to consider where the unresolved issues might lead.

John King’s efforts have been persistent (having already given us a History, 2002, and an Elgar Companion, 2012) and are on-going. In Advanced introduction to post Keynesian economics he enumerates six core post Keynesian propositions, which, we would have thought, should by now be broadly accepted among political economists.

First, unemployment is not regarded as a market phenomenon but as the consequence of macroeconomic conditions which warrant investigation in terms of the social and political conditions determining income (and output) and investment as a whole. The metaphor of a market (with capacity to drive self-correcting adjustments) is ultimately unhelpful.

Second, these macroeconomic conditions are determined principally by the level of effective demand (in turn dependent on the investment decisions of corporate capitalists), with this demand being normally insufficient to generate full employment of labour or other resources. As King puts it, ‘Fluctuations in investment expenditure are the key to the business cycle, but there is also a tendency for a chronic deficiency in effective demand … since the profit share is normally too high, and the
wage share too low, to generate enough consumption expenditure’ (p.13). Deficiencies in demand can, however, be ‘managed’. Third, investment decision are the key to the operation of a capitalist economy and they determine income and savings (not vice versa). Business expectations of future profitability are crucial for current investment though of course there is no guarantee they will be realized.

The next post-Keynesian stipulate is that ‘money matters’; money is never a neutral link between buyers and sellers. A monetary economy routinely entails risks, above all the chance that financial commitments will not be honoured, or anticipated monetary returns not received, or liquidity not satisfactory; and these together render the conventional liberal postulation of equilibrating tendencies preposterous. Ancillary to such potential disruptions is the post-Keynesian realization that the money supply neither indicates nor determines the level of economic activity; the quantity theory of money being quite mistaken on these points. In particular, costs can influence prices, and therefore inflation, reversing the causal flow accepted by monetarists. And in any case the coherence of any notion of the money supply vanishes once we recognize the (fluctuating) availability of credit. Sixth, and finally, a fundamental (radical) uncertainty envelops the outcomes of business investment decisions. Uncertainty and the effects of costs on prices instate state intervention (‘socialized’ control of investment, and incomes policy to ‘regularize’ the distributional conflict between wages and profits – and resultant political controversy over the likely efficacy of an expanded state role in economic management) as a standard part of the post-Keynesian worldview.

Though sometimes significant differences in emphasis have emerged for post-Keynesianism, a central judgement, distinguishing it from other dissident traditions (though not, most probably, from Marxian political economy) is the often-observed but ill-understood phenomenon that capitalists frequently resist policy intervention (such as deficit spending) from which they, and society as a whole, would benefit. Comparison of the ‘full-employment’ era after 1945 with the politics of the past 40 years indicates the damage done by unwarranted relegation of this (Kaleckian) aspect of post-Keynesian analysis.

So, for John King, post-Keynesianism is attuned to the perilous connections between macro-social understanding and present policy choices. Intellectual dispute and political ramifications loom large. In
addition to the above, post-Keynesianism maintains that conventional policy is often (perhaps normally) contractionary, that financial innovation is usually destabilizing, that high and inflexible wages are not necessarily detrimental to economic performance, and, of course, that economies rest on macrofoundations with emergent properties (unintended purposes and downward causation) of their own. Above all, we know from the ‘Cambridge controversies’ (especially Joan Robinson’s contributions from the 1950s) that orthodox liberalism has no coherent concept of capital, the mainstream depiction of capital as a factor of production serving not as a description of reality but a legitimation of private property and an otherwise unjustifiable distribution of income.

This book emphasizes too, that though many of the ontological dilemmas post-Keynesians now engage with derive from Keynes’s insights and musings – witness his 1925 comments on the qualities an interdisciplinary economist must possess and his 1938 comments on the ‘principle of organic unity’ – many of which were not specifically resolved before 1946. Keynesian and post-Keynesian controversies since then concern the status of cycles, crises, incomes distribution and incomes policies (pp.28-30).

John King notes, not wholly enthusiastically, the immense space given to discussions of methodology by post-Keynesians. He himself has a well-repeated preference for pluralism, close to what Sheila Dow refers to as Babylonian method (avoidance of extremes) (ch.4). Others opt more emphatically for a critical realist position which sanctions the need to make inferences from the observed world about causal processes which cannot be observed. We still continue to disagree over the extent of abstraction and formalism to accept in coming to terms with monetary economies. These are weighty issues for all the social sciences – something which puzzled Keynes and his Bloomsbury milieu throughout their lives.

Scholars outside the post-Keynesian firmament are often absorbed by the same questions – consider Baran & Sweezy, John Kenneth Galbraith, institutional and evolutionary political economists, in their problematization of economies of scale, stages (and forms) of capitalism, or the changing conditions of regulation. It seems a pity that a post-Keynesian unanimity is still to be reached on whether politics is becoming more or less necessary, more or less impotent, and whether
debt is an intractable problem or not – Keynesian ‘functional finance’
seems to suggest not. Even the declining relevance of scarcity in
contemporary economies is not universally endorsed (ch.5).
John King himself seems still inclined to maintain that the egalitarian and
welfare state achievements of the post-1945 era remain temporary (p.13).
But on some central questions he seems to withhold judgement. For
example, the phenomenon of transformational growth within the rich
polities doesn’t get the discussion it seems to warrant, nor the application
of Keynesian understandings of demand deficiency to poorer
(developing) economies, nor overlaps between protectionist and
developmentalist priorities, nor whether the age of financialization
portends a longterm ‘age of decline’ (ch.6). While he supports ‘vigilant
regulation’ of finance, opposes monetary policy and generally endorses
‘big government’, he is non-committal about whether wage-led inflation
is still a possibility (ch.7). Though he has firm views on some particular
policy options, elaboration of a ‘Kingian post-Keynesianism’ on others,
especially globalism (ch.8) and Sraffian formalism, is truncated (ch.9).
It is unreasonable to expect a 140-page ‘introduction’ to be
comprehensive. What we have here is a reminder that post-Keynesian
political economy still has much to contribute.

Geoff Dow taught in the School of Political Science & International
Studies at the University of Queensland.

Francis Fukuyama,
The Future of History: Can Liberal Democracy Survive
the Decline of the Middle Class?
Foreign Affairs, January/February 2012.

Reviewed by Alexander Svitych

Francis Fukuyama is probably best known for his article and a
subsequent book The End of History? published more than twenty years
ago. In that work the author argued that history ended with the collapse
of the Soviet Union and the reign of liberal democracy and capitalism all
over the world. Fukuyama’s position thus contradicted the idea of Karl Marx that communism would eventually replace capitalism. The author coined the term ‘end of history’ not to describe a series of events, but rather as the notion that democracy would become more established since the ‘ideological evolution’ had ended.

However, in his more recent piece, *The Future of History*, Fukuyama takes a different stance. Now he says that, in view of the ongoing economic crisis and troubling social trends, a new political and economic ideology needs to be born that ‘could provide a realistic path toward a world with healthy middle-class societies and robust democracies.’

Most importantly, this ideology must be created by the middle class and incorporate the concepts of capitalism, democracy and freedom. It is not all plain sailing, of course, as Fukuyama acknowledges. For example, China is posing a serious challenge to liberal democracy, favoring a more authoritarian ‘China model’ to increase social stability, especially since the recent financial crisis. However, Fukuyama contends that this model is still unlikely to become a viable alternative to liberal democracy outside the Asia Pacific due to a number of internal constraints. Nor is the growing middle class in China likely to behave differently compared to the rest of the world.

While the author’s standpoint is clear, he ends up in the sort of ideological dead-end typical of the Western liberal school of thought. This dead-end is caused by the shared assumption that liberalism and democracy must ultimately win. This is why Fukuyama cannot soberly evaluate the problems of the post-crisis society.

Fukuyama claims that we have hit an ideological wall. Capitalism is dying in front of our eyes, and we therefore need a new ideology. We cannot build it on the existing intellectual premises as there are too many restrictions on us. Indeed, these restrictions appeared due to the struggle with the USSR and with spread of communism in general. Since the


communist project is no longer relevant, all the barriers can be removed now. Yet Fukuyama emphasizes four political economic features that must be retained under all circumstances - private property, freedom, democracy, and the middle class. It is clear why the middle class appears in this list. This is the class that requires private property, freedom and democracy. The poor do not need these values, as they do not help them to become better off. At the other extreme, the rich may not need freedom and democracy, as they can protect their property themselves. In this regard, the middle class becomes an essential link.

The view that capitalism is endless by default is supported by liberal political thought and neoclassical economics. This is the reason why the new philosophy, as proposed by Fukuyama, will be nothing but a non-structural refurbishment of capitalism. In the aftermath of the global financial crisis that emerged in 2008, the world's leading economists made a call through their political elites, global institutions and transnational corporations for a more ethical form of capitalism, rather than revision of the model itself.

Is such renewal possible? To answer this, it is first necessary to understand how the idea of the collapse of capitalism got into the communist ideology. It was articulated by Karl Marx and follows from the Marxist theory of the change of socioeconomic formations. But why did Marx decide to elaborate this theory? As a scientist – not as an ideologist or agitator – he was critically engaging with political economic ideas that appeared at the end of the 18th century, developed by Adam Smith and David Ricardo. According to Smith, the level of division of labor in a particular society is limited by the size of this society, i.e. by the market. The larger the market, the more differentiation of labor is possible. A small hospital operating in a small town will have a few physicians; while a large hospital serving a large population can have many specialists that a small town (market) cannot support. The

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3 Marx and Engels’ scientific and theoretical understanding of the change of the social-economic formations (from primitive communal to ancient, feudal, capitalist (bourgeois)) and inevitably communist is elaborated in the works The German Ideology, Manifesto of the Communist Party, A Contribution to the Critique of Political Economy, Capital, The Origin of the Family, Private Property, and the State; and others. For Marx’s remarks on the inevitable breakdown of capitalism see, for example, chapter 32 of volume I of Capital, entitled The historical tendency of capitalist accumulation, available at: https://www.marxists.org/archive/marx/works/1867-c1/
growth of the market will increase the division of labor and, hopefully, will generate bigger profit. A simple yet important consequence follows – further division of labor can be made only by means of market expansion. According to Marx, yet more profound contradictions limit the expansionary prospects of capitalism: class conflict and deepening crises open up the prospect of a change to communism.

Today we are observing the situation where capitalism is literally everywhere, and the globalization of capitalist economy has reached its limits. As a result, further division of labor is not possible in the existing economic paradigm. Something can be done in particular industries, of course, but not in the whole economy. The current economic crisis is therefore a general crisis of capitalism. The system has run out of resources for development, and the world can no longer move forward in the grip of the capitalist ideology. Not only have corporate globalization and capitalist growth mainly benefited the interests of the few while disregarding those of the public, they have also increased polarization between the rich and the poor, exacerbated environmental degradation, prioritized the needs of transnational corporations over the needs of society, and aggravated global inequality and injustice. Capitalism’s insatiable drive for expansion is no longer sustainable, as it destroys communities and extinguishes the world’s natural resources.

Fukuyama’s emphasis on the need to adapt the variety of capitalism, rather than denouncing it, is therefore not persuasive. We have not arrived at the end of history; the changing political economic conditions may indeed render another major change necessary. Fukuyama’s failure to consider this possibility is symptomatic of the conservative elements in the Western philosophical tradition, ignoring the insights of Marx and other scholars of fundamental socio-economic change.

Fukuyama’s attempt to advocate for the middle class as the bearer of the new ideology is subject to similar criticism. The former existence of the USSR as an alternative to capitalism created fears that induced the elites to share some of their profits in the interests of social stability. From the economic point of view, however, the middle class can only exist with continuous economic growth, as it is created and maintained under the

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4 The assertion on the limits of growth was already formulated by The Club of Rome, *The Limits to Growth* (1972). For more recent political economic analysis, data and evidence see, for example, David Harvey, *The Enigma of Capital and the Crises of Capitalism* (2010).
conditions of broadening production and increasing consumer demand via bank loans. Fukuyama’s failure to engage with the bigger issue of the prospective end of capitalism devalues considerably his rhetoric on the future of history. Why should we expect continuity of the same policies that led Western capitalist society to emphasize liberal ideas, democracy, and the middle class? Under the current crisis, this population stratum will no longer be a socially-necessary factor, similarly to what happened to the proletariat in the second half of the 20th century. The inequality gap between the very rich and the very poor has been growing at an alarming rate in recent decades, and is squeezing the middle class in both developed and emerging economies, as warned by the World Economic Forum. The question of who can replace the middle class remains open in this regard.

The tragedy of Western economic thought as represented by Fukuyama’s writing is that it cannot recognize the current crisis as marking the end of the paradigm of scientific and technological progress. While some speak about the ongoing end of the Westphalian epoch, we are now witnessing the signs of the end of the long-spanning modern epoch that has lasted for about five hundred years. As in the past, a new epoch is bound to bring new social, political and economic forms of existence.

In summary, while Fukuyama presents an attempt to revise the concept of ‘the end of history’ into ‘the future of history’, he targets the form rather than the essence of the concept. He follows political elites in their choice of capital as a lead agent in the process of historical development. He serves ideologically those who advocate intensification rather than revision of the model of corporate globalization that had brought so many negative consequences over the last few decades. What Fukuyama fails to see, or purposely evades, is that the crucial issue today is to find a new development mechanism and a new language that can describe it. He notes in The Future of History that: “The alternative narrative is out there, waiting to be born.” Indeed, those who achieve an understanding

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and description of this narrative will become civilization’s champions for
the next decades, if not centuries.

Alexander Svitych is a PhD Candidate at the National University of
Singapore

Babones, S. J.,
Methods for Quantitative Macro-Comparative Research.
ISBN: 9781412974950

Reviewed by Stuart Birks

This was a very enjoyable book to read. Don’t be fooled by the title. It is
more than a ‘to do’ book. Babones defines quantitative macro-
comparative research (QMCR) as, ‘the application of regression analysis
to country data’ (p.4). Although useful for researchers undertaking
QMCR, the perspectives and insights are of value to a much wider
audience. Written in a suitably sceptical tone, it is a cautionary
description of the way people can be drawn into formulaic, mechanical
applications of a technique. The result in the case of QMCR has been the
development of a self-sustaining and self-contained literature following
its own accepted conventions. These can bring academic success for its
practitioners, but the work is increasingly removed from reality as more
complex and questionable requirements develop. Moreover, ‘some of the
research norms have become so widely accepted as to have become
invisible’ (p.78). Does this sound familiar?

Babones challenges and strongly critiques much that is taken as gospel in
quantitative methods courses, the use of which often results in
misleading research. Both in the general approach that he takes and in
specific practical advice, there are many cautionary messages. His
concluding recommendation is for broad-based analyses that bring
together many perspectives. He sees the need for both quantitative and
qualitative research, with the latter able to give more recognition to
political, institutional and social dimensions and better suited to deriving
meaning from research results.

At the same time, he recognises the reality for QMCR researchers. They
face perverse incentives whereby individual studies using prevailing
processes can give the biggest rewards. This is not entirely surprising.
Incentive structures that result in methodological constraints have been
observed elsewhere in academia.

A major constraint with QMCR is the small, fixed body of data with a
limited number of variables. Much economic and social data relates to
nations. However, there are at best about 200 countries, many of which
have only emerged as independent states since World War II, and
national accounts data are equally recent. Countries are not
compositionally independent in that, for many of them, their fortunes are
linked. Consequently we have ‘a barren soil of meagre data’ (p.4). The
ground has been worked over many times. Many variables, such as
Durkheim’s ‘social facts’ (e.g. social norms, religious beliefs and
familial obligations) are fixed or change only slowly, so multiple
observations involve a high degree of replication. Research therefore
often equates to putting ‘old wine in new bottles’, such as the ‘recycling
of ‘trade’ as ‘globalisation’” (p.5). With the single data base, there is a
‘one-world problem’, it is not possible to experiment or try to replicate
on other data.

There are other problems with the use of country data. Babones describes
the arguments for and against treating every country equally. With no
country weighting, the EU countries are given collectively 27 times the
weight of the US, despite having roughly similar land area, population
and economy. On the other hand, weighting according to population
effectively turns cross-country regressions into analyses of China, India
and the United States. There are many gaps in the data, with some
countries having more complete records than others. Consequently, if a
study requires longitudinal national income data, most of the included
countries are high income or in Africa, hence many QMCR analyses
largely represent comparisons between Europe and Africa.

There is some useful discussion on operationalization of data, as in
attempting to construct meaningful measures of inequality, poverty, or
globalisation. These are highly politically sensitive issues, and so it is
important to recognise how poorly measured they are for the purpose of
quantitative analysis. A common ‘solution’ is to follow the crowd,
adhering to some measure or index that has been adopted in other published studies. Some data seem to have achieved a high level of acceptance simply because they fill a gap. Babones illustrates this when he describes indices used to represent political rights or democracy, arguing that they reflect the interests of the NGOs that provide them.

The discussion on lagged relationships and causality includes points that are not widely appreciated, contending that treatment should differ according to the nature of the study. Many of the variables used to describe countries vary only slowly, so the use of a lagged variable may not really demonstrate direction of causality. Similarly, use of several years’ data may increase the sample size, but only through a high degree of replication, thus artificially inflating the apparent significance of results. Given potential measurement error with annual data, Babones suggests that more accurate results may come with averaging over, say, five years. It may not look as impressive, but it could be more meaningful.

Statistical significance is also covered. Rather than using the fallacy of the transposed conditional as stressed by McCloskey, Babones describes the early days of significance tests, at which time the details were still under debate. It is a salutary lesson as to how something can come to be a *sine qua non* while being misused and bearing little relation to the original concept.

While use of control variables is supported, they still come under criticism. Hence, ‘Observational data…are rife with dependency structures…No one variable can meaningfully be ‘held constant’ while others are allowed to vary’ (pp.123-4).

While more frank than many books on research methods, some critical points could have been further developed. For example, there is a recurrent problem in empirical analyses that functional forms are often loosely specified by theory and casually addressed. Hence, ‘Raw data are routinely transformed into more or less normally distributed variables in order to make them better behaved’ (p.53). In other words, data are transformed to suit statistical requirements, with little thought as to whether the resulting relationships are economically meaningful. Estimation of linear models assumes that each (possibly transformed) explanatory variable has a fixed impact on the dependent variable in the specified time period and regardless of its value or the values of all the other explanatory variables. All the observations are assumed to be of the
same structure, and so the effects are also fixed for, in this case, all countries. This is far more restrictive than most theories would specify. Nevertheless, poor explanatory power for an equation is put down to either measurement error or omitted variables. Inappropriate or imprecise specification of the relationships would be an equally serious concern.

Babones acknowledges that choice of data and forms is heavily constrained by availability of data series and estimation methods:

Social science models in general, and QMCR models in particular, are not directly formulated based on explicit theories of the functional forms of the relationships among variables. Linear, additive effects with independent errors are postulated not because we believe them to best represent the relationships among our variables, but because they are assumed in the model types we can most conveniently estimate (p.192).

But what does this really give us, and how credible are the estimated relationships as a basis for policy?

While causality is critically discussed, claims are still made such as: ‘If two variables are uncorrelated, it is extremely unlikely that they are causally related’ (p.143). Correlation is a measure only of linear association between the data series. There are numerous other possible causal patterns that could be observed, such as a threshold effect (drowning and depth of water), or a viable range (survival in relation to temperature), not to mention INUS conditions. (INUS conditions refer to situations where an event can occur when a set of conditions arises, and there may be several such sets that produce the same effect. Consider ‘causes’ of car accidents, workplace deaths, or rises in income, for example). Consequently, these and other models estimated using these techniques only cover a small subset of possible relationships.

In summary, this is a very worthwhile book that challenges many established conventions. It opens up debate on important issues and challenges the perceived authority of dominant research methods. In doing so, it illustrates the sort of critical methodological debate that should be ongoing if we are to regularly remind ourselves of the limitations that we face as social scientists.

Stuart Birks is senior lecturer in the School of Economics and Finance at Massey University, Palmerston North, New Zealand.