Post Keynesian Economics

Aggregate Demand has the greatest impact on the economy

Snapshot

Key Ideas

- Institutions should intervene to stimulate the economy by increasing demand
- The 'Multiplier Effect': money spent on wages (employment) will get recycled in the economy through consumption and therefore inflate overall economic performance
- Unless unemployment is at 0%, the economy could be growing faster
- Workers should have higher wages because when they get richer, there is greater demand and the economy grows faster.
- The future is fundamentally uncertain.
- Unregulated financial markets are unstable. They should be controlled so they don't upset the balance of the economy

A little more info

John Maynard Keynes was an economist during the Great Depression and recognised that the government could do more to **intervene** in the economy. One major intervention was in Capital Expenditure (Spending money on big infrastructure projects), which was hoped to induce the **Multiplier Effect.** The aim is to **increase the money available in the economy** and this is a key aspect to the original response to the Great Depression in the USA in the 1930s. President Roosevelt's 'New Deal' led to **big infrastructure projects** (like the Hoover Dam). The capital (money) spent on wages and materials was recycled in the economy through consumption (workers buying things) and therefore was meant to increase overall economic performance. This is mostly relevant in closed economies (globalisation mitigates this).

The amount of economic activity in a country can either be constrained by how much stuff businesses can create (the supply side) or by how much people are able to buy (the demand side). Classical economists think the limit is usually set by supply, and only in rare cases (like big depressions) does demand limit growth. Post-Keynesians understand that the economy is almost always being **constrained by demand**, and supply is only important in rare cases like during big wars when the economy is really running at 100%.

People like to know the probabilities of what's going to happen in the future, but some things are simply unknowable due to unpredictable things like wars, or hurricanes, or sudden changes in technology. To make big decisions, businesspeople rely on their **gut feelings**, or what Keynes called '**animal spirits'**. If lots of people are feeling good about the economy, there will be more investment and more growth. When people feel bad, they stop investing and growth crashes. Confidence is vital to the success of the economy

What to read?

John Maynard Keynes
Joan Robinson
Hyman Minsky
Review of Keynesian Economics
Michal Kalecki
Robert Skidelsky
Review of Political Economy
Cambridge Journal of Economics

www.postkeynesian.net/downloads/PKSG_Reading_list_2016.pdf

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Marxian Economics

Economics is about power relations and the control of production

Snapshot

Key Ideas

- All economics is political (Political Economy)
- Value comes from the labour which is put into a product (Labour Theory of Value)
- Freedom of the workforce, or labour, is critical to the economy
- Owning the means of production concentrates power
- Workers should be more connected to the output of their work, with greater input in the processes, greater access to shareholding and more decision-making power
- Promote worker-control initiatives, solidarity economies and communitarian and cooperative structures of production
- Power relations are identified within the economy
- Capitalism results in negative outcomes of alienation and commodification:
  - Alienation results from the workers being disconnected with production
  - Commodification leads to the market encroaching on private life

A little more info

The price of a product or service in a capitalist economy **does not reflect the true cost** or value of that good. For Marxists, **value comes from work**. Whenever a worker swings a hammer, sends an email or stands behind a cash register, they are adding value to the economy.

Whenever you work, you will only be paid you a certain percent of the actual value you create. The rest (**surplus value**) goes to the person or business who hired you. Some Marxists call this process **exploitation,** and this explains how capital accumulates in the hands of a relatively small number of companies or **capitalists**.

The concept at the centre of much of Marxist economics is **power**. Power does not play a huge role in classical economics, as people are assumed to willingly enter into economic agreements with each other. However, ownership is vital to the freedom to enter in to agreements, as people who own land or capital are able to live off the income created by their assets, while almost everyone else **must work** for someone else to survive.

Classical economics refers the actions of *individual decision makers* (like businesses, individuals or households). Instead, Marxists think in terms of **social class**. Classes are groups of people that share some set of important defining characteristics, like 'capitalists' who own companies or 'workers' who don't. Thinking in terms of class allows economists to aggregate people by their economic interests and try to understand how and why different groups of people work together or come into conflict.

What to read?

Karl Marx
Immanuel Wallerstein
Chantal Mouffe
New Left Review
Rethinking Marxism

Antonio Gramsci
Giovanni Arrighi
David Harvey (Podcast & YouTube)
International Journal of Political Economy

Austrian Economics

Individuals cause and influence social phenomena

Snapshot

Key Ideas

- The economy should work as a co-ordination system for individuals to make decisions
- The market is in a constant state of flux, or process, with uncertainty linked to low levels of information
- Economic crisis can be a good thing if it lets the economy adjust back to its natural position.
- People know best about their individual economic situation, and information is lost as it travels up government or corporate hierarchies. Decisions should be made at the most local level possible, where the most information is
- The monetary system should be harnessed as a means of influencing the economy
- If the government exists at all, it should do as little as possible, so it stays out of the way of the economy

A little more info

Austrians think economics should be made up of long logical chains of claims that are indisputably true based on the laws of **logic** and the nature of human action. The school can be regarded as a **philosophy** as well as a school of economic thought.

Austrian economists believe that empirical reasoning cannot be used to analyse the largely **unpredictable course of human action**. Rather, they argue, pure logic is the only tool by which the science of economics can advance, for it is the only way to deduce the ways in humans will act. Thus, they reject positivism, econometrics, and the idea that economics is largely a mathematical science. Most of their arguments are verbal and *a priori* (logical).

Advocates believe that financial crises are often due to interest rates being artificially low, leading to excess credit in the economy. This leads to over-confidence and mal-investment in the markets. Central Banks are often cruised for poorly implementing interest rates

The Austrian School is very **critical of all government intervention**, believing that no institution could fully understand the **complexity of the market**. Rather, decisions should be made at **local, micro** levels, by individuals and businesses which are directly implicated by the decision.

What to read?

Carl Menger
Ludwig von Mises
Robert Meyer
Martha S. Braun
The Review of Austrian Economics
Fredrich Hayek & Joseph Schumpeter are loosely connected

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Feminist Economics

Snapshot

Economics should take count of gender relations

Key Ideas

- Gender power dynamics are embedded in the economy
- GDP is an inaccurate measure of the productivity of the economy
- Non-market activities, such as care, love and interdependence should be studied
- Work refers to both paid and unpaid activities. E.g. Factory work and house work, and both should be recognised in data
- Reproductive activities, like giving birth, are essential to the economy
- Ensure that economic metrics count the hidden economy e.g. by using time surveys to record how people work throughout their days (not just in the factory or office)
- Equality can be both women being able to work in factories, *and* men being able to care for children
- Social Norms are very influential in what people do, and can be altered

A little more info

Feminist economics is not an economics for women only, or even an economics studying only women in the economy. It is an economics that looks at **full economic lives of people, both inside and outside of markets**.

A big part of any economy is not in the form of markets and exchange but takes place in other settings like **families and communities**. Cooking meals, caring for elderly parents and even having children are all deeply economic actions. They take up time and resources and fulfil important needs for people and societies. When these activities take place in a market setting, like a restaurant, economists are more than happy to study them. But when mom cooks dinner or looks after your grandparent the action is somehow **invisible** to most economists.

If a man was to hire his wife as a cleaner or chef, overall GDP would increase. Gross domestic product is the sum of all the goods and services produced in an economy each year. It is probably the most used statistic in economics. While economists claim to study the whole economy, GDP measures **only the market economy**, leaving out all the economic activities in which money does not change hands. Critics say that this means that human **wellbeing** is not taken in to account my classical economic metrics.

Visibility of work is an essential component in Feminist economics. The use of time data surveys can ensure that work that is carried out in the household in recognised in economic statistics and can be later incorporated in to measures of output. There is a distinction between value associated with money and that which is intrinsic. I.e. just because an activity is not paid by the market, does not mean that it is not valuable.

What to read?

Marilyn Warring	Mariarosa Della Costa
Ariel Salleh	Silvia Federici
Giacomo D'Alisa	Amartya Sen
Journal of Feminist Economics	

Ecological Economics

Human economic activity is limited by biophysical limits

Snapshot

Key Ideas

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- The economy is situated within society, and society is within the environment.
- Economics must focus on social and environmental problems that are anchored in the real world, not an economics textbook.
- There are hard physical limits which cannot be overcome by technology
- There are intergenerational aspects to economics. Human life in decades to come must be considered today
- Climate change and economics are inextricably linked
- Nature has intrinsic value, outside of the market
- Ecological Economics is different to Environmental Economics.

A little more info

Ecological economics stresses the fact that the thing that we call 'the economy' is **embedded** within society, and society is further embedded within the environment. Understanding these limits frames how ecological economists think about major economic topics like economic growth or economic inequality. This 'open system' cannot be studied in isolation and therefore requires **dynamic modelling** or '**systems analysis'.** While there are certainties with regards to the absolute biophysical limits of the biosphere, there is massive **uncertainty** in the economy and therefore e**mpirical evidence** is important.

Economies take inputs like natural resources and energy and produce goods and services along with waste like trash and pollution. Ecological economists call this process **social metabolism**. The environment can only provide so many inputs, and it can only handle so much waste. As societies become more technologically advanced the rate at which they can turn inputs into goods and services (and waste) increases. Resources are referred to as '**stocks'** of natural capital, and **Critical Natural Capital** (CNC) in **not substitutable**. Therefore, declines in CNC are a danger to the economy.

Ecological economics refers to **incommensurability**, which means that the value of one good or thing cannot be easily compared to the value of another. As all things have distinct, **intrinsic value**. For example, a tree cannot be described in monetary terms, in the same way that the love of a mother or father to their child cannot be quantified. Market mechanisms such as Ecosystem Services are therefore critiqued within Ecological Economics.

Sustainability plays a vital role in ecological economics. With **resilience** being studied and encouraged within systems. Only by recognising that economics, society and nature are acting in collaboration, can sustainability be found. Degrowth incorporates ecological economics within a wider philosophy.

What to read?

Herman Daly
Kenneth Boulding
E. Gomez-Baggethun
Inge Røpke
Journal of Ecological Economics

Kate Raworth
Nicholas Georgescu-Roegen
Giorgos Kallis
Clive Spash
D.H. Meadows

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Snapshot

Indigenous Peoples

Traditional lifestyles have been sustainable for thousands of years

Key Ideas

- Recognise the role of past and future generations in the economy
- The reproductive aspects of the economy are vital and underpin everything else
- Success and failure should be collectivised
- Recognise the impact of colonisation on traditional ways of life
- Strengthen land rights for traditional communities
- Rights extend beyond humans, incorporating other animals and plants
- Question power relations such as patriarchy and class systems

A little more info

Indigenous Peoples live using localised practices that have been perfected over hundreds or even thousands of years. It includes the recognition of local **stewardship**, or looking after, local nature and respecting social history. Land is an essential aspect of indigenous life, with the connection between humans and nature vital. Communities often have a highly developed knowledge of the local ecosystem and recognise the value of sustainable preservation and following traditional social systems.

Examples

The nation of **Ecuador** has incorporated indigenous themes in the national constitution. It has written into law several fundamental ideas that emerged simultaneously and in a unique way. For example, the recognition of the **rights of nature** and of the fundamental right to water, which bans any form of privatisation of this essential resource

Ubuntu is a philosophy of the Bantu speaking peoples in Central and Southern Africa. Underpinning the philosophy is the belief that ""A person is a person through other persons". Ubuntu takes the ethical position that to be a human being is to **care for oneself and others**. The rights of **past and future generations** are treated with the same respect as the present, a community is comprised of the living, the living-dead (ancestors), and the yet-to-be born. Ubuntu also expresses a strong principle of community solidarity materialized into a redistribution of wealth, with group work and cooperation often privileged over self-promotion.

Buen Vivir, or 'good living', is a mindset from originating from communities across Ecuador and Bolivia: with Similar notions exist in other Latin indigenous cultures. Buen Vivir stresses the importance of people living in **harmony** with each other and with the environment. It requires a form of decolonisation, rejecting global mindsets such as capitalism or socialism as they are not applicable in every situation or location. It allows for a **mutual aid institution** in the community setting. It guarantees **labour that serves the common good** and meets the collective needs and interests of the community.

(Eco)Swaraj is an alternative form of development developed in India and proposed for other countries such as China. Swaraj means '**self-rule'** and was popularised by Gandhi as an alternative method of development than that under colonial rule. It rejects forms of inequality such as the caste class system or patriarchal rule. As these countries 'develop' there is a need that they do not copy the European model of colonialism and ecological exploitation. Solidarity, respect and self-sufficiency are key aspects of this approach.

What to read?

Forest-trends.org
The Snow Change Co-operative
https://www.degrowth.info/en/dim/degrowth-in-movements/peoples-global-action/
https://www.sametinget.se/english (Saami Parliament)