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Editorial to the special issue

Post-Keynesian economics and global challenges

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Post-Keynesian economics, based on the original works of John Maynard Keynes, Michal Kalecki, Nicholas Kaldor, Joan Robinson, Piero Sraffa, Hyman Minsky and others, has been the main alternative to orthodox macroeconomics for decades. It has also inspired the Forum for Macroeconomics and Macroeconomics (FMM) since its beginning in the 1990s,[1] and, of course, also the Post-Keynesian Economics Society (PKES) since the 1980s.[2] The 26th conference of the FMM in Berlin in October 2022, organised jointly with the PKES, aimed at taking stock of post-Keynesian and other critical contributions, with a focus on how they deal with current global macroeconomic challenges. These include high and rising imbalances and inequalities at the national and global levels, and the need for social-ecological and economic transformation to address the environmental crisis. While these challenges require coordinated government intervention, both nationally and internationally, policymakers are faced with high public debt and, more recently, rising inflation rates. At the same time, the global financial architecture puts severe limits on the ability of countries in the Global South to conduct macroeconomic policies that can address the current economic and social challenges. This special issue addresses these questions and draws on the plenary contributions of the 26th FMM conference.

The first three papers focus on the constraints for development and structural change. Robert Blecker asks: 'How important is the real exchange rate (RER) for exports and growth?'. He argues that neither of the extreme views, that (i) the export performance and output growth depends only on non-price competition and the RER is irrelevant

1. On FMM, see https://www.fmm-macro.net.
2. On PKES, see http://www.postkeynesian.net.

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to long-run growth, or (ii) the RER is a key variable for promoting long-run economic development, is supported by recent empirical evidence. Most econometric studies find significant effects of RERs on exports and growth, but subject to numerous qualifications. RER effects on exports may differ by the type of goods in the export bundle. Overvaluations may be harmful to growth but large under-valuations may be ineffective for stimulating it. Furthermore, Blecker highlights that, even if RER effects on growth rates are found only for medium-run transitions, these may imply a long-run impact on levels of output.

Gabriel Porcile, José Eduardo Alatorre, Martín Cherkasky and Camila Gramkow discuss new directions in Latin American Structuralism. They present a three-gap model of sustainable development. According to their view, sustainable development implies reducing the gap in GDP per capita between centre and periphery, decreasing inequality and protecting the environment. Their model addresses these dimensions of sustainable development by defining three rates of growth: the minimum required to reduce inequality and eradicate poverty (y^S); the maximum compatible with external equilibrium (y^T); and the maximum compatible with a global carbon budget (y^L). Estimations of those rates of growth for Latin America suggest that $y^S > y^T > y^L$. The authors argue that in order for these three growth rates to be aligned, i.e. $y^S = y^T = y^L$, and a sustainable growth path be thereby achieved, industrial, technological and social protection policies need to be simultaneously implemented under a new political economy configuration at the national and global level.

Finally, in this first part, Daniela M. Prates, Barbara Fritz and Luiz Fernando de Paula focus on frontier-market economies (FMEs), as a new group of the financial periphery. They analyse patterns and transmission channels of global shocks for this group. The authors discuss the drivers of FMEs' integration into financial globalisation, explaining the greater vulnerability of FMEs compared to emerging-market economies (EMEs) to global financial shocks. They argue that FMEs, as a new group of the financial periphery, fill a vacuum left for yield-seeking global investors by the major EMEs, whose sovereign bond spreads declined in the past decade due to high foreign currency reserve accumulation and other EME-related factors. To explain the greater vulnerability of FMEs compared to EMEs, they introduce the concept of financial hierarchy as a second layer of the currency hierarchy approach. While the currency hierarchy depends on the different degrees of liquidity premia currencies offer, the financial hierarchy relies on the nominal yields of financial assets.

Two other papers deal with gender, the care economy and supply constraints. Mark Setterfield presents a feminist approach to post-Keynesian growth theory and the supply side. As is well known, post-Keynesian medium- to long-run macrodynamics is designed to extend the role of effective demand beyond the short run. Setterfield points out the importance of supply-side considerations in post-Keynesian demand-led growth theories. Three new developments are highlighted: human capital accumulation, the social reproduction of labour, and the supply-side link between distribution and growth. These new developments are shown to provide new insights into the established themes of reconciling demand and supply in the theory of long-run growth, as well as into the relationship between distribution and growth. Furthermore, the feminist macro model used to explore the social reproduction of labour is shown to be a potential general framework for synthesizing these insights.

Özlem Onaran and Cem Oyvat synthesise feminist and post-Keynesian/Kaleckian economics for a purple–green–red transition, addressing gender, environmental and capital-labour issues. They explain why post-Keynesian economics needs feminist economics and why feminist economics needs post-Keynesian macroeconomics. They then present a theoretical synthesis model bringing together and extending existing macroeconomic models in feminist post-Keynesian economics. Finally, empirical findings based on this synthesis model are discussed in a policy context.

The final set of papers explicitly tackles current macroeconomic policy challenges. Sebastian Gechert asks whether the post-Keynesian or the New Keynesian paradigm provides a more realistic description of the effects of fiscal policy on output and consumption. Based on established macro- and microeconomic stylized facts on fiscal multipliers and marginal propensities to consume, he assesses basic and extended modelling approaches within these two traditions. He finds that the picture is mixed and points to shortcomings in both paradigms. Finally, he outlines the elements they could learn from each other as well as from some other strands in the literature to generate a coherent and convincing Keynesian macro-micro framework of fiscal policy modelling.

Modern money theory (MMT) recommendations for fiscal and monetary policies in the current difficult times are presented by Joëlle Leclaire, focussing on the USA and the eurozone. She points out that, first, MMT supports targeted deficit spending to promote production. By increasing domestic supply, this should reduce the price inflation of goods and energy, she claims. Second, she advocates for reducing the interest rate which should make production more profitable. Third, Leclaire explains that MMT pushes for a job guarantee programme and increased unionization to alleviate pressures on wages. Fourth, she argues that MMT supports rationing, postponed consumption, patriotic saving, and regulation. It is concluded that the current policies of increasing interest rates and limiting government deficit spending are not the only ways to address the post-COVID-19 period, and that MMT provides superior solutions for the achievement of price stability.

In the final paper of the special issue, Jo Michell turns to 'macroeconomic policy at the end of the age of abundance'. He argues that the traditional post-Keynesian and progressive policy packages that rely on demand expansion via fiscal stimulus and redistribution of income face serious supply-side constraints. In the short run, these consist of climate-induced disruption and geopolitical tensions, and in the longer run of binding carbon budgets. Therefore, Michell argues that to raise investment sufficiently so that net zero emission goals under persistent inflationary pressure can be achieved, policies that restrain consumption may be required. Consumption constraints may then dampen or even neutralise important mechanisms, like the multiplier and the self-financing of public spending. Finally, some core elements of an updated progressive macroeconomic policy programme are presented.