

Eckhard Hein, *Distribution and Growth after Keynes: A Post-Keynesian Guide*, Cheltenham, UK and Northampton, MA, USA: Edward Elgar, 2014, 551 pages.

By Yannis Dafermos[†]

Ours is a very interesting time for students and scholars of macroeconomics. The global financial crisis has called into question the premises of the pre-crisis consensus in macroeconomics, alternative macroeconomic theories have attracted a growing attention and the distributional issues have started returning to the macroeconomic research agenda. This book of Eckhard Hein is definitely a book for this time. By presenting a complete self-contained analysis of the post-Keynesian approaches to distribution and growth, it provides a solid alternative perspective to the study of macroeconomics in the post-crisis era.

Hein describes the issues in the field of distribution and growth in a comprehensive and stimulating way, shedding light on both theoretical and empirical considerations. Postgraduate and advanced undergraduate students can benefit by using the book as a guide to the theories and empirics of distribution and growth after Keynes. Researchers in macroeconomics can utilise Hein's contribution as a guide to the recent post-Keynesian research in the field.

The book opens with an introductory chapter that contains various stylised facts about distribution and growth since the 1960s. Considerable emphasis is placed on the falling trend of the labour income share in many advanced economies over the last 3 decades or so. The causes and the effects of this stylised fact are among the major subjects of the book. Chapters 2-6 are valuable resources for students. Chapter 2 examines the traditional Harrod-Domar growth model and makes an insightful comparison between the original and the textbook version of this model. Hein shows that the textbook version (which gave rise to the neoclassical growth model in the 1950s) assumes away various

[†] Department of Accounting, Economics and Finance, University of the West of England, Frenchay Campus, Coldharbour Lane, Bristol, BS16 1QY, UK, email: Yannis.Dafermos@uwe.ac.uk.

important features of the original model, most notably the out-of-equilibrium dynamics and the impact of effective demand on growth. Chapter 3 provides an excellent analysis of the neoclassical distribution and growth theory. This chapter is valuable for two reasons: first, it explains in detail the implicit assumptions behind the neoclassical growth models; second, it summarises in a clear way the critiques that have been made to these models (including the points raised in the Cambridge capital controversies). In the economics departments nowadays the prevailing norm is for students to learn the mechanics of the neoclassical growth models without paying sufficient attention to the limitations of these models and their links with the real-world problems. For those who wish to depart from this norm and teach the neoclassical growth theory in a more insightful way this chapter will definitely serve their purpose.

Chapters 4 and 5 provide a valuable account of the foundations of the post-Keynesian distribution and growth theories. Chapter 4 concentrates on the contributions of Kaldor, Pasinetti, Robinson, and Thirlwall. The chapter discusses, *inter alia*, Kaldor's equilibrium growth models, the Pasinetti and neo-Pasinetti theorems, the 'Kaldor growth laws', the idea of cumulative causation, Thirlwall's balance-of-payment-constrained growth and Robinson's approach to the relationship between the rate of growth and the profit rate. At the end of the chapter Hein presents a textbook Kaldor-Robinson model and discusses its limitations. Chapter 5 is an important chapter for the rest of the book. The author presents there the main approaches of Kalecki and Steindl which constitute the roots of the modern Kaleckian model. These include the mark-up price-setting procedure, the notion that excess capacity and unemployment exist beyond the short run, the impact of functional income distribution on growth and the endogenous determination of investment. Drawing on these theoretical insights, in Chapter 6 Hein describes in detail the modern basic Kaleckian distribution and growth model and explains the concepts of wage-led and profit-led regimes which are at the core of the Kaleckian approaches nowadays. Chapter 6 is an excellent introduction for students who wish to understand the main features of the modern formal Kaleckian analysis.

Chapters 7-11 primarily reflect the author's own research in the field and are of particular interest to scholars who desire to contribute to the contemporary Kaleckian literature. Chapter 7 introduces saving out of wages and open economy issues into the

basic Kaleckian model. These extensions are important not only because they make the model much more realistic, but also because they increase the likelihood for the existence of a profit-led demand regime. Using this extended model as a basis, Hein discusses the results of the empirical literature that has examined the type of demand regime in various countries. His synopsis of the empirical findings shows that in most countries under investigation a redistribution at the expense of labour income places downward pressures on aggregate demand. Based on this evidence, Hein argues that the reduction of the labour income share since the 1980s (the stylised fact described in the introduction) was generally harmful to economic activity.

Additional extensions to the baseline Kaleckian model are introduced in Chapters 8 and 9. Chapter 8 allows productivity to change endogenously and examines the theoretical channels through which functional income distribution is likely to affect productivity growth. Hein discusses the findings of the related empirical literature which seem to suggest that an additional adverse impact of the falling labour share since the 1980s was the downward pressure that this fall placed on productivity growth. Chapter 9 introduces financial factors and pays particular attention to the effects of interest rate and debt on economic activity and functional income distribution. Various regimes are derived and their empirical relevance is discussed.

Chapter 10 focuses on financialisation. Hein examines both theoretically and empirically the effects of financialisation on income distribution, investment, household debt and current account balances. Particularly illuminating is the distinction that the author makes between two different types of capitalism under financialisation: (a) the debt-led consumption boom type in which debt-financed consumption plays a crucial role in sustaining economic growth and profits; and (b) the export-led mercantilistic type in which economic growth and profits rely on trade and current account surpluses. Hein explains how the combination of these two types of capitalism increased the fragility of the global economic system in the pre-crisis period. Although Chapter 10 covers a wide range of topics related to financialisation, it should be clear that Hein confines his attention to Kaleckian aspects. Accordingly, the developments that have taken place within the financial sector over the last decades (such as the rise in shadow banking) and

the effects of asset price inflation on debt accumulation and growth are not explicitly analysed.

In Chapter 11 Hein goes back to the building blocks of the Kaleckian model and tackles the critiques that have been made to these blocks from a classical, Marxian and Harrodian perspective. The author focuses on the critique that is related to the endogeneity of the capacity utilisation in the long run. He discusses the responses of Kaleckian authors to this critique and provides various arguments to support his view that the critique is not convincing. This chapter is an essential part of the book: without that, the reader would be incorrectly left with the impression that the Kaleckian model is unanimously accepted in heterodox macroeconomics. However, this chapter should probably appear earlier in the book, for example before the chapters that present the extensions to the basic model and the related empirical findings.

A distinct feature of the book is the extensive use of mathematical formulations. This might create difficulties to the readers who are less familiar with technical issues. However, Hein's choice to rely on models for his expositions has various advantages: it makes clear the assumptions of the underlying theories, helps the author to investigate complex and conflicting effects, facilitates the comparison between different theoretical approaches and permits a clear connection between theory and empirical evidence. Reader's understanding of Hein's formulations is enhanced by the consistent use of symbols throughout the book (the definitions of these symbols are provided at the outset) and the inclusion of a mathematical appendix.

It should be stressed, though, that Hein's mathematical analysis is confined to comparative dynamics. As the author explains in the introduction, out-of-equilibrium processes are beyond the scope of the analysis in this book. The method that Hein utilises has the advantage of isolating the effects of changes in the factors that are important for his investigations (such as the wage share). The disadvantage is that it does not explicitly consider phenomena related to cyclical patterns and complex dynamics. These phenomena arguably play a prominent role in real capitalist economies and constitute an integral part of modern heterodox approaches that draw on the works

of pioneers such as Goodwin, Harrod and Minsky. The author's choice to focus on comparative dynamics precludes an explicit account of these considerations.

For those who are more interested in the distributional issues – rather than in growth ones –, a limitation of the book is that Hein restricts his attention to functional income distribution: the distribution of personal income and wealth is touched on only in the discussion of some empirical findings in Chapter 10 and is not part of the theoretical approaches. To a significant extent, this limitation reflects the fact that personal income and wealth inequality have so far been only partially incorporated into the post-Keynesian models of distribution and growth. More research in this area would certainly improve the post-Keynesian theories of distribution and growth and would enrich their links with empirical developments.

In the preface Hein expresses his hope that the book will be ‘...a useful *Post-Keynesian Guide* for present and future generations of students, as well as for colleagues and researchers interested in the issues of *Distribution and Growth after Keynes*.’ (p. xiv). Hein's ability to present complex arguments in a clear way, to provide linkages between traditional approaches and recent research and to connect insightfully theoretical and empirical aspects ensures that the book will achieve its aim.