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**A reconstructive critique of IPE and GPE  
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An alternative Keynesian-Kaleckian approach**

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**ABSTRACT:** This paper offers, first, a critique of the relative lack of economic theory in ‘British’ Global Political Economy and then use of neoclassical rational choice theory in American mainstream IPE from the perspective of critical scientific realism. Keynesian economic theories provide perhaps the most obvious alternative. Keynes’ *General Theory* has been followed by many, forming also the basis of Minsky’s long ignored but now, after the 2008-9 crisis, all of a sudden famous explorations on the mechanisms of financial markets. While a major leap forward, we argue that these theories are historically and conceptually limited. Keynes’ critique of neoclassical economic theory and his alternative theories of particularly the effective demand and of money and credit can be strengthened by following also a neo-Kaleckian approach which avoids some of the inconsistencies of neo-Keynesianism. We indicate where further conceptual work is required and provide several illustrations from the neo-Kaleckian and neo-Keynesian theory to suggest a partial agenda of further scientific work including the explanation of unnecessary and undesired global fluctuations, tendencies and crises and possible collective responses to them. We also suggest the possibility of going beyond Keynes and Kalecki in terms of a general field theory of global political economy that can accommodate the deep normative and institutional underpinnings of the historically evolving planetary political economy.

Keywords: Financial Crisis, Policy Space, Keynes, Kalecki, Minsky

JEL classifications:F3, F6

## Introduction

In a context in which American ‘normal science’ in IPE has increasingly come to resemble neoclassical economics (Phillips 2009; Wade 2009), and in which the mainstream ‘British’ alternative is rooted in the historical-interpretative approaches of Robert Cox and Susan Strange (cf. Cohen 2008a,b), it is important to explore methodological and theoretical alternatives, especially from a critical scientific realist point of view (Patomäki 2009; Khan 2009; Khan and Irfan 2010). The division between positivist and historical-interpretative approaches is also closely related to the insulation of economics from other social sciences (see Patomäki 2003). Economics has ruled out the relevance of key social theoretical concepts such as meanings, agency, class, structures and power; while social sciences tend to ignore the determination of efficiency, growth, income distribution, inflation, (un)employment, business cycles, exchange rates fluctuations, politico-economic crises and ecological effects of production and consumption. Is this an inevitable state of affairs?

Many dissenters (see for example, O’Brien and Williams 2007, ch 14 in particular) want to distinguish Global Political Economy from IPE by emphasizing the more critical elements of political economy. Inspired by Cox’s (1987) term ‘world political economy’, Stephen Gill and David Law (1988, xxii-xxiii) coined the holistic term GPE. Gill and Law argued that a political economy analysis should not be narrowly limited to diplomatic relations between governments of modern nation-states, which are taken as given, and a few other actors such as NGOs and international organisations. The focus should not be on the actions of a few collective actors, particularly states, but rather on the underlying socio-economic processes and structures. Deeper and larger historical processes (of production in particular) determine, in part, forms of state and world orders. In contrast to Wallerstein, but in accordance with the rapidly developing literature on globalisation, Gill and Law (1988, 378) also claimed that there is now a rather well integrated global political economy, ‘whereas in the past, there was a less complex international political economy’. Particularly in the US academic setting, IPE remains as the all encompassing term. Often, but not always, IPE is then cast within a liberal-statist political economic framework.

We maintain that the standard methodological dividing line and related splits are based on an anachronistic understanding of science. According to the best contemporary understanding of science, structured mechanisms and relational causal complexes produce effects in open systems. It is wrong to confine explanations to particular actors or contexts only and to assume that causality can be analyzed in terms of simple laws expressed in terms of necessary or sufficient conditions. Causality should rather be understood simultaneously in terms of (cause and effect) complexes in open geo-historical systems and in terms of the specifics of the subject matter in question. Furthermore, an adequate social scientific explanation involves meanings and hermeneutical understanding (Khan 2008d). In general, the subject matter of GPE involves also material, formal and teleological causes, in addition to efficient causation. In society, reasons, agency and their reasons for meaningful actions constitute the efficient causes. (Kurki, 2006, 2008; cf. Patomäki, 2002: chs 3 and 4) Agency (both social and of socially-situated individuals), structures and power, and other social theoretical concepts such as context, institutions, and field, are relevant to explaining political economic outcomes. Causal explanation does not

necessarily imply predictions in the sense of positivism, but it does enable the building of scenarios about possible and likely futures.

While critical GPE may have been on the right track in criticizing positivist economics, changes in relations of power, hegemonic understandings or distribution of wealth cannot be understood or explained without insights into economic processes and their outcomes. Growth creates resources for productive and destructive purposes. As population and *per capita* growth-rates vary in different locations, the global process of economic growth allocates populations and resources in complex and uneven ways. Oscillations around the trend of economic growth are connected to capital overaccumulation; unemployment; financial crises; fluctuations in the value of money and different currencies; and states' foreign economic policies. Income (re-)distribution is a global process that is entangled with growth-rates and power-relations in complicated ways. Growth in a capitalist economy is defined in terms of market transactions that often presuppose or entail commodification and alienation, which can be important to understanding political movements and responses. All political economic processes take place within the planetary biosphere, through which these processes have various consequences to all aspects of life and society.

In this paper, we take GPE to be a broad category that comprises also the standard IPE issues. We explore the potential of different – to varying degrees realist – economic theories to enrich the discourses of both IPE and GPE. First, we discuss briefly the limits that the lack of appropriate economic theory poses to IPE / GPE. Second, we discuss various Keynesian and Minskyan theories that have now re-surfaced in popular and mainstream discussions as a consequence of the global financial and economic crisis of 2008-9. While these theories provide important insights into the ways in which capitalist market economy tends to work, we stress the importance of Kalecki's less well-known but equally important theories, based not only on non-linear macrodynamic systems but also on the politico-economic consequences of class- and power-relations, all articulated in a theoretically consistent framework. In the last section of the paper, we try to combine various theoretical insights in terms of proposing the possibility of a general field theory of global political economy.

### The explanandum and basic aims of Global Political Economy

For Benjamin Cohen (2008a,b), the British School of IPE was founded by two North Americans, Susan Strange (exiled in Britain) and Robert Cox (based in Canada). Strange was neither an economist nor a theorist, but wanted to develop a framework in terms of which the interconnectedness of politics and economics could be analysed. The starting point was International Relations rather than Economics. What is power and how is it exercised to shape outcomes? How should we explain states' economic foreign policy and behaviours more generally? What is the role of multinational corporations in influencing states and international organizations? How are systems of global governance shaped? Who gets what in the overall system?

However, issues of power and distribution of wealth were not the only concerns of Strange. She raised the issue whether, and what kind of, political agency is required to provide the necessary framework for world markets. She was also interested in understanding the role of vested interests and finance in the ways in which capitalist

market economy works, and was at least at times using mainstream liberal economic theory as a standard against which to assess outcomes.

[...] private protectionism of vested interests can have just as distorting effects as state protectionism. There is much discussion of ‘market failure’ – but the failures of markets to function according to the laws of economics are habitually attributed to interventions by governments, seldom to interventions by firms. (Strange 2000, 86)

Cox (1981; 1983) was more systematically a theorist of history than Strange, relying heavily on the ideas of Antonio Gramsci. According to Cox, since reality is changing, so must our concepts. The central historicist concepts of analysis include relations of production, social class, historical social forces (generated by relations of production), power, forms of state, historic blocs, hegemony, and world order. In his magnum opus, Cox (1987, part II et. passim) describes painstakingly the formation of different relations of production, social forces and forms of state throughout world history and how they, in turn, have played a role in the making of post-World War II world, particularly within the OECD area. This was a novel account of the rise and, subsequently, crisis and demise of the Bretton Woods system.

Gill and others (see e.g. Gill 1993) have used the concepts introduced by Cox to criticise conventional IR approaches and thereby found a new field. What the neo-Gramscians try to describe and explain are changes in the forms of state and governance of the capitalist world economy, both also with economic policy implications. The most common theme has been the neoliberal transformation that has swept the world since the 1970s. Since the 1990s, the main focus has been in the establishment and locking-in of this neoliberal transformation. Characteristically, the stories about these changes are outlined in terms of relations of production, historic blocs of social forces, power and hegemony (see Cox 1996; and e.g. Gill 1990; 1991; 2008; also the empirically based work of Mark Rupert 1995).

Although neo-Gramscian GPE may sometimes, at least in part, rely on some ideas and claims of heterodox economics, the subject matters of these two related disciplines are different. GPE appears to be only indirectly concerned with production, economic efficiency, ecological effects, (un)employment, business cycles, financial crises, or distribution of income, or any of the other traditional topics of economics. These economic developments form the background of interpretations of history rather than the *explanandum* of studies (most notably in Cox 1987, ch 8).<sup>1</sup> The main method of GPE has been to tell a historical story of developments of world capitalism by using a set of theoretical concepts and a number of direct and indirect empirical sources. Explicit existential or causal hypotheses are relatively rare (for instance Cox 1987, 102 mentions a ‘hypothesis’, but does not study it). This may seem to indicate that GPE is, at best, complementary to (heterodox) economics. Of course, to the extent that it can help to explain forms of states and the formation of regimes of regulation, both crucial to determining economic outcomes, GPE could also improve economic analysis. That would, however, presuppose re-unification with economics.

<sup>1</sup> One could ask if these are then parts of the *explanans*; but the specifications tend, in general, to be vague. Also dissenters from the *deductive-nomological* model of explanation like the present authors would be hard put to justify these background interpretations of history as part of a broad explanatory sketch without further explicit specifications of the (political) economic theories involved.

Moreover, although neo-Gramscian GPE is critical by means of unmasking myths, ideologies and power-relations, the normative basis of this criticism remains somewhat undeveloped. There is the occasional call for more democratic ways of organising global economy and even some preliminary suggestions (e.g. Gill 2008; see also Lipietz 1996). It nonetheless seems that usually the neo-Gramscian critical GPE has been unwilling or unable to cultivate alternatives in any concrete detail. Also in this respect, we think, there is room for improvements.

### Some Problems with the Neoclassical Theories including Theories of Trade and Applications in IPE

If systematic economic theory seems to a significant degree lacking in main strands of GPE, would it, then, be reasonable to introduce neoclassical economics to the field as the American mainstream of IPE has been doing in an accelerating pace? We contend that, at the most general level, there are serious conceptual problems with both the partial and general equilibrium theories in the neoclassical school. Since the international trade and finance theories which are increasingly being used in the IPE research are essentially built on these partial and general equilibrium theories, we begin with some critical observations at this fundamental level before moving onto a critique of the neoclassical international trade theories in particular.

Various critiques of standard neoclassical economics have been around for a long time, but are usually simply ignored by the practitioners of neoclassicism. The assumptions of atomistic actors with insatiable wants, preference orderings that are well-defined but do not allow for many forms of economic behaviour of potential interest, production functions with smooth factor substitutability, convexity and marginal productivity of factors have all been criticized, and for good reasons. The marginal productivity theory in particular depends on the use of Euler's theorem under constant returns to scale. More fundamentally, the definition and measurement of capital in the neoclassical aggregate production function turn out to be incoherent.<sup>2</sup>

Furthermore, the modern neoclassical conception of rationality as articulated by Samuelson and others poses some serious problems as well. The assumption that agents optimize, i.e. maximize or minimize some well-defined objective function subject to constraints has been challenged in various ways. One positive research program to have emerged from these challenges is that of bounded rationality. Following from Herbert Simon's critique of 1950s, various formalizations of bounded

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<sup>2</sup> Aggregate production function is based on a metaphorical concept of capital that somehow miraculously combines monetary resources, machines and equipment, actors' know-how embedded in complex technological practices and systems, and spontaneous human creativity. Denoting it by  $K$  and using it as part of neoclassical theory in terms of the Cobb-Douglas function, for instance, hides more than reveals. The key assumption is that all these diverse things and relations can be quantified and added up in an unambiguous way. A standard production function takes the following form:  $Y = A f(K, L)$ , where  $Y$  = production(output),  $K$  = inputs of capital,  $L$  = input of labour and  $A$  = technical progress. The Cobb-Douglas for is:  $Y = AK^\alpha L^{(1-\alpha)}$ , where  $A$  designates productivity growth from technical progress, economies of scale, etc. The idea is that by eliminating additions of capital and labour, as if they could be separated from the way production is organised in terms of activities and practices, the leftover  $A$  can be calculated. For good reasons, at least in our opinion,  $A$  is often called the 'coefficient of ignorance'. See McCloskey 1986, 79-86; Morgan 2003, 7-19.

rationality are now available. From within economics, the rapidly growing sub-field of computational economics including models which use fuzzy set theoretic approach and neural networks is opening up new ways of thinking about rationality that are increasingly proving to be viable alternatives providing deeper insights about real economic behaviour. Structurally, such approaches can model the entire economy as a complex, non-linear adaptive system with dynamic properties that capture the instabilities of capitalism endogenously.

One particularly powerful form of modern neoclassical macroeconomics – sometimes called the ‘new classical macroeconomics’ pioneered by Lucas, Sargent, Prescott, Kydland and others – is based on the rational expectations hypothesis according to which “rational”, i.e., optimizing actors know the relevant (neoclassical) economic model and the distributions over which they can compute the relevant moments – expected values in particular. This assumption has the effect of enabling the modeller to assume that the whole is nothing more than the sum of its rational parts. A practical consequence is that all attempts to change the ‘natural’ outcomes would only lead to counterfactual consequences and sub-optimal outcomes. However, in a slightly more realistic world where agents update their learning inductively, as in many neuro-fuzzy models (Khan 2004b, chapter 7; Lin et. al. 2008), there is no need to assume that they know the relevant economic model and the distributions over which they can compute the relevant moments – expected values in particular – before responding to a change in policy. In addition to older critiques which object to reducing uncertainty to calculable risk, this new critique also offers a way forward to model approximately but realistically inductive learning where human cognitive and computational capacities are limited.

From a wider social theoretical perspective on economic theory, however, even concepts such as ‘bounded rationality’ or ‘neuro-fuzzy rationality’ appear limited and problematical. Also in the practices of value-production and exchange, social actors are concerned with questions of identity and normative conceptions such as internal goods, justice and democracy (see e.g. Bowles and Gintis 1993; Bowles 2008; Sayer 2003). To ignore communicative and social forms of rationality in economic theory tends to lead to counterproductive policies, which is indicative of the poverty of theory based on *homo oeconomicus* assumptions or their extensions.

A further fundamental objection to neoclassical economic theory is based on a critique of the concept of equilibrium. The basic neoclassical models imply that prices, as freely determined in open markets, can and often do ensure the optimal reconciliation of supply and demand.<sup>3</sup> The technical term to describe this reconciliation is “equilibrium”. The basic claim is that equilibrium is achievable in open free markets. While various sophisticated models have qualified the basic claim in various nuanced ways, without usually renouncing the basic free market conviction,

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<sup>3</sup> The neo-Keynesian end of the acceptable left-right continuum within the mainstream (some state intervention vs. free markets) acknowledges that markets can fail to achieve full efficiency. “Part of the problem is the lack of perfect competition, part is the existence of externalities, and part is the fact that markets may take a long time to adjust to any disequilibrium given the often considerable short-run immobility of factors” (Sloman 1994, 411). The long-term implications of this analysis are in line with the liberal orthodoxy: although public intervention may be necessary in the short run, in the long run competition can be made more “perfect”; externalities can be overcome by privatisation and setting a price to everything; and factors can be made more mobile and “flexible”.

it is further assumed that equilibrium maximises efficiency and thus also the overall welfare of society. In other words, the sum of atomistic individuals maximising their utility and consumption and firms maximising their profits can be optimal for everyone, provided that no redistribution of wealth is allowed. Welfare is conceived in terms of Pareto-optimality, i.e. no arrangement can improve the position of anyone without making worse the position of somebody else. The implicit background assumption of Pareto-optimality is that markets distribute wealth in a just way: those who contribute the most are equally rewarded the most.<sup>4</sup> First developed as a marginal productivity analysis in the context of the production function, in general competitive analysis, the assumption that markets for all commodities including all inputs – various types of labour and capital in particular – exist, together with other technical conditions of production yield this conclusion generally.<sup>5</sup>

Borrowing from classical mechanics, the various definitions of equilibrium at both individual and systemic levels in neoclassical theory ignore the distinctions between motion in a socio-economic field and in a closed mechanical system. At best, equilibrium in a socio-economic field context can be seen as a heuristic device; but all motions of interest in a socio-economic field are actually fluctuations around trends that are produced by real causal processes in open systems and are not pre-given. Both Keynes and Kalecki – but especially the latter – grasped this point well in their attempt to describe and explain the instabilities of modern capitalism.

Even if one leaves out these fundamental conceptual issues and takes for the sake of argument, for instance, the Arrow-Debreu general equilibrium model as given, further problems arise. One issue that has received serious attention within the neoclassical school itself is the asymmetry of information among different agents. As Joseph Stiglitz and others have shown, the violation of information symmetry leads to externalities that can invalidate the so-called fundamental welfare economics theorems according to which any competitive equilibrium or Walrasian equilibrium leads to a Pareto efficient allocation of resources and any Pareto efficient allocation (with appropriate redistribution of the initial endowments) can be sustainable by a competitive equilibrium. Under asymmetric information, the decentralized competitive equilibrium is unlikely to be optimal.

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<sup>4</sup> The Austrian school of economics and especially Friedrich Hayek – critical of the concept of equilibrium but in favour of free market society – are explicit about this theory of justice. For most neoclassical economists, however, this theory of justice is concealed as a technical-mathematical criterion of Pareto-optimality and related theory of general equilibrium. Pareto-optimality is used routinely by economists as a normative standard in evaluating different possible institutional arrangements, thus turning it into a substantive principle of justice. (Rescher 1966, 12-18) The point of Kenneth Arrow and Frank H. Hahn's *General Competitive Analysis* (1971) – otherwise purely theoretical with no apparent practical meaning in terms of understanding how any concrete historical economy works – seems to be to show, with mathematical certainty and precision, that the basic conclusion of Walras and other neo-classicists is valid: (i) competitive markets can yield an efficient Pareto-optimal equilibrium and (ii) prices of factors can equal marginal productivity. The latter means the market price of each factor will be equal to its contribution. Assuming the “more you contribute the more you should get” model of justice, this translates into free markets ensuring distributive justice.

<sup>5</sup> There are further complications such as incomplete markets---spot or futures---and returns to scale assumptions, inter alia. There is an interesting literature particularly on incomplete markets. Even ignoring these complications does not remove the fundamental problems with rational expectations.

These points have almost immediate applications for instance in the context of theory of international trade. Under realistic assumptions, free international trade does not lead to global optimality. Khan and Irfan (2010) analyze critically the use of mainly neoclassical trade theory in current IPE literature. It may be acknowledged that the use of H-O-S theory and related theorems such as the Stolper-Samuelson theorem and Factor Price Equalization theorem etc. has led to some partial insights. However, even their use is often flawed because of ignoring the problems of theoretical assumptions, dynamic evolutionary mechanisms and limitations of standard welfare economics based on Pareto efficiency. Alternative theories such as the new trade theory, Ricardian-Sraffian theory, Marxian Unequal Exchange theories and so on, can lead to better explanatory and (in appropriate cases) even some predictive performance with regards to specific well-defined *explananda*. Khan and Irfan (2009) illustrate this by discussing some north-south models of global trade and inequality and a specific “dual-dual” structural model with endogenous migration and poverty.

It is often claimed that globalization can be understood in the context of theories of free trade and their relevance is argued by pointing out the alleged benefits of globalization. The decreasing price and improving quality of goods in the richer countries as a result of the rapid globalization starting roughly from the 1980s has indeed prompted many experts to reiterate the benefits of international trade. Critics, however, disagree. According to one critic, ‘globalization, together with free trade, (has turned) into a “virtual ideology” of our time’ (Nayyar 2006). Contrary to what this neoliberal mainstream suggests, data show a growing gap between the world’s rich and the poor despite the increase in the volume of trade. Proponents of ‘free’ trade often argue that the richer countries have become rich by virtue of liberalizing their economy. However, critics have presented extensive examples to the contrary, arguing that at least selective protectionism has been the historic practice during much of the development trajectories of the richer countries (Chang 2002, 2008).

Following a long tradition from Friedrich List to Keynes, Shaikh (2007) for one argues that the basic premises of standard trade theory do not hold in reality. For example, he presents evidences of job losses as a result of trade liberalization. He also presents data to show that the mechanism of balancing trade through adjustments in *terms of trade* do not work. He points out that these empirical anomalies are addressed by bringing forward a long-term argument for adjustment through the price mechanism or presenting complex short-term models, with slight deviations from standard theory assumptions of perfect competition or mobility but without much generality. Shaikh (2007) then brings in the argument of ‘classical competitive advantage’ whereby, in a global market, various national economies compete like domestic producers, the more competitive producers driving out the less competitive ones. This is, in reality, a kind of absolute advantage argument.

### The relevance of Keynesian and Minskyan approach

If our arguments are valid so far, the question then arises as to what kind of economic theories would need to be introduced to IPE and GPE? What kind of theories can help us address the tasks of explaining the *explananda* in IPE and GPE – also identifying in the process further items in the list of things to be explained – and to find adequate policy and institutional solutions to the problems of a geo-historically evolving global

political economy? Keynesian economic theories provide perhaps the most obvious alternative. Keynes' (1961) *General Theory* has formed the basis for a large literature of "post-Keynesian" economics, which includes Hyman Minsky's (1982, 2008) long ignored but now, after the 2008-9 crisis, famous explorations on the mechanisms of financial markets and his formulation of the financial instability hypothesis.

It is plausible to read Keynes as sustaining a scientific realist orientation throughout his career, stressing the complexities, uncertainties, interdependencies and changing and open nature of the real world (Lawson 2003). Especially in the *General Theory*, the activities and expectations (particularly in Keynes' discussion of long term expectations in ch 12) on the part of agents such as workers, consumers, investors, and speculators depend on how the whole evolves; and the evolution of the whole depends on what the parts do and expect. For Keynes, the mutual dependency of the parts and whole works out through effective demand and the multiplier effect. According to Keynes (1961, 25), effective demand lies, in an imagined geometrical space, where the value of the proceeds which entrepreneurs expect to receive (D) from the employment of N workers at the point of aggregate demand function is intersected by the aggregate supply function. This is a somewhat problematical formulation. The main problem is that the idea of continuous aggregate demand or supply functions is based on rather contested and, probably, unfounded assumptions (cf. e.g. Keen 2001, ch 3). We think, as Marx in a sense suggested, that it would be more realistic to define effective demand in terms of continuously changing real production potential. Allied with modern science and engineering, capitalist market society constantly creates 'new objectified powers of human knowledge and work'<sup>6</sup>, i.e. new productive powers of machines, equipment and know-how. In a cyclically varying manner, however, these potentials cannot be fully absorbed because of the active role and demand for money or what Keynes called 'liquidity preference', and because of the systematically restricted consumption powers of the workers.<sup>7</sup>

Keynes argued that in most levels of employment, there is inequality between the aggregate supply price of output as a whole, and its aggregate demand price. Or, more technically, but also less realistically, in a short term prices may remain fixed and quantities vary, creating excess capacity and unemployment in a disequilibrium model. At any rate, 'there is no reason in general for expecting it to be equal to full employment' (Keynes 1961, 28). The precise values of aggregate income depend on the complex determination of planned investments and spending on consumption.

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<sup>6</sup> This slightly modified quote is from Marx 1973, 706.

<sup>7</sup> In *Capital Vol. II*, Marx presents a more detailed dynamics of capital and commodities (including labour power as a commodity) in terms of the three circuits of capital. The problems of organizing and financing capitalist production and of realizing surplus value are presented in a temporal context by Marx. Later he introduces the two departments of a capitalist economy to further augment this picture and formulate a theory of capitalist crises. At the most abstract level in *Capital III*, Marx (1991, ch. 15) explained that the limit of the capitalist mode of production stems from the discrepancy between human and social needs, on the one hand, and production for the sake of profit, on the other. This discrepancy can assume the form of different concrete – and possibly geo-historically varying – contradictions, yet the basic story remains the same: needs and profit-motive do not coincide. At the most abstract level in *Capital III*, Marx (1991, ch. 15) explained that the limit of the capitalist mode of production stems from the discrepancy between human and social needs, on the one hand, and production for the sake of profit, on the other. This discrepancy can assume the form of different concrete – and possibly geo-historically varying – contradictions, yet the basic story remains the same: needs and profit-motive do not coincide.

In trying to explain business cycles, Keynes (*ibid.*, 324-326) stressed the role of expectations about an uncertain future. For instance, the liquidity preference of the public – people’s wish to hold cash instead of consuming or investing their money – is caused not only by the use of cash as a means of exchange but also by the uncertainty of the future. In this context, in Davidson’s memorable phrase, money acts as a ‘liquid time machine’. When there is confidence in the future, people feel secure about consuming, investing and often also accumulating debt, particularly if cheap money is easily available. Otherwise, staying liquid with cash hoards is a safety net in the face of an uncertain future.

However, income distributions and variations in consumption and future expectation among the public explain business cycles only in part. For Keynes, the determination of productive investments is at least equally important. Investments depend on (particularly long-term) interest rates and the horizons of expectations of those who make investment decisions.

Unpredictability and uncertainty of the future is a key to understanding many developments in a market economy, and especially investments. Following the Frank Knight’s earlier distinction between risk that is calculable and uncertainty that is not, Keynes argued that there can be no scientific basis for predictions of many historical episodes and their outcomes or large-scale developments. When assessing future prospects, uncertainty is more fundamental than risk. There are areas of life where probabilities can be estimated in a reasonable way, partly also though counting frequencies, but many geo-historical events and developments are too unique for that. ‘The sense in which I am using the term [uncertain] is that in which the prospect of a European war is uncertain, or the price of copper and the rate of interest twenty years hence, or the obsolescence of a new invention, or the position of the private wealth system in the 1970s’ (Keynes in 1937, quoted in Gillies, 2006, 214).

The Keynesian frame admits, however, the existence of degrees of uncertainty. There may be some information that is relevant in determining the likelihood of future event E, but this likelihood becomes dependent also on the weight of the argument, i.e. from the ratio of things that can be plausibly known to ignorance. Yet, uncertainty is not only epistemological; it is also ontological. Social systems are open and “nonergodic”, meaning that the relevant processes are non-repetitious and involve qualitative changes, and thus many events, episodes and decisions are unique. (See Crocco, 2002) Therefore, the weight of evidence and degrees of uncertainty can only be determined in terms of qualitative judgements based on conceptual-theoretical and circumstantial evidence (historical analogies, comparisons between processes, prevailing understandings and opinions etc). Know-how of making plausible – yet fallible – intersubjective judgements can be cultivated by acquiring comprehensive conceptual and historical knowledge; understanding of social causation; and practical experience on building explanatory models and futures scenarios.

With the condition of uncertainty in mind, Keynes (1961, 158) distinguished between two ways of making investments and profits in the capitalist market economy: enterprise and speculation. Enterprise is ‘the activity of forecasting the prospective yields of assets over their whole life’; whereas speculation is ‘the activity of forecasting the psychology of the market’. Keynes argued that ‘as the organisation of

investment markets improves, the risk of the predominance of speculation does increase'. Liquid investments – 'hoarding or lending money' – can yield a better pay off, at least in the short-run, than long-term productive investments and thus offset real investments. He also maintained that this is "an inevitable result of an investment market organised" in a manner making investments liquid (*ibid.*, 155).

Instability of speculative finance is a key cause of instability in capitalism. To explain financial crises, we need further theorising about the characteristic mechanisms of financial capitalism. Minsky's theory explains why developed financial markets themselves tend to produce crisis, recessions and unemployment. According to Minsky (1982, 166-77), financial markets begin to develop into a more innovative, speculative and crisis-prone direction at times of growth and affluence. Past experiences are projected into the future and speculation becomes increasingly attractive. Capitalist market-economy generates innovations also in finance, not only in production and exchange. New financial instruments and other innovations presuppose de- and re-regulation. Financial innovations are based on a drive that is analogous to the effects of Schumpeterian innovations, ensuring monopoly profits for a while (see Schumpeter 1939, 87-125). These prospects can be made better, and the 'while' of a monopoly position longer, by means of 'secrecy regarding processes, patents, judicious differentiation of products, advertising' (*ibid.*, 107). In financial markets innovations concern leverage and the management of risk. Financial innovations are about increasing leverage; hiding uncertainty, or masquerading uncertainty as calculable risks; and (often secretive) transferring and pooling of risks.

Banks create credit money when they give loans against future revenues and profits. Decisions about loans must be based on anticipation of the future under the conditions of Keynesian uncertainty.<sup>8</sup> The monetary system is stable only as long as streams of revenue and profit enable firms to meet their financial liabilities. (Minsky 1982, 22) Financial actors tend to create new forms of profitable finance, typically increasing velocity of circulation and decrease liquidity, and often merely just hiding uncertainty and risks.<sup>9</sup> Many capital goods, and also real estate and financial investments, have been bought at least in part on credit. This makes their value (and the value of collaterals) dependent also on developments in financial markets, which in turn are contingent on actors' expectations about the future, commonness of speculative orientation and the general degree of involvement in debt.

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<sup>8</sup> Mistaking the abstract neoclassical models based on assumptions such as perfect foresight and competition for reality, neoliberal policymakers have first shifted financial activities and responsibilities from public to private actors, and then encouraged securitisation by transferring credit from bank-based to equity-based tradable forms. These moves were to a significant degree responsible for the subprime mortgage crisis in 2007-8. (Best, 2008. 366) The idea that competitive markets have a foresight that every single actor is lacking amounts to reification. Collective "free markets" assume magical qualities that no human being can have, even though trading practices depend on human actors and investment decisions can only be made by them (automatic trading-protocols depend on humans who design them and allow them to operate on their behalf).

<sup>9</sup> Even disregarding attempts to hide and transfer hidden risks to others, there is a fallacy of composition involved in "innovative risk-spreading": what is possible for one actor at a given time, is not possible for all of them simultaneously. Risk-spreading does not make the underlying risks disappear but rather enable individual actors to take more risks collectively, thus gradually making the system as a whole – and thereby also its individual parts – more vulnerable to cumulative disturbances.

Speculative activities sensitise actors on alterations in expectations about the future; yet no one can predict the future. The development of asset values is always uncertain in open systems and determined in significant part by actors' expectations and anticipations. (Ibid., 59–69) The higher the liabilities in relation to revenues and liquidity, the more unstable the financial system becomes. Relatively small changes in interest rates, revenues or incomes may make some actors insolvent and they can in turn endanger the solvency of those actors who are expecting due payments from them. In the midst of mounting difficulties many have to opt for 'Ponzi finance', i.e. they have to take expensive short-term loans merely in order to meet their financial liabilities. A rapid rise in Ponzi-finance indicates a crisis in the near future. Relatively small absolute changes in interest rates, streams of revenue and wealth can thus trigger a financial crisis. (Ibid., 162–77) In other words, financial innovations and increasing involvement in debt make the financial system more chaotic, despite regulatory authorities' occasional attempts to close some loopholes and warn about the hazards of speculation. The inherent tendencies of finance thus create a mechanism of sensitive dependence on the conditions of any weak or vulnerable part of the system, while their weakness is, in part, a result of involvement in debt. When liquidity and credit disappears from the system due to a panic and crisis, it has an effect underlying values, consumption and investments.

According to Keynes' *General Theory*, in a situation of unemployment of resources, whatever its immediate cause, any extra investment or employment will increase income by an amount which is multiple ( $k$ ) times the increment of it. Keynes (ibid., 113-31) did not invent the concept of multiplier but he developed it more systematically than his predecessors. The basic idea is that increases in spending in public projects or investments can increase total spending by a multiple of that increase. Keynes also shared the key notion of the underconsumption theorists, namely that redistributive justice through tax-and-transfer policies can increase effective demand and is thus conducive to growth and employment. However, in his *General Theory*, Keynes (1961) is not explicit about the geo-historical specificity of the world he is analyzing; rather he represents his concepts and theory as 'general'. Minsky does discuss the role of specific historical institutions – such the central bank as lender-of-last-resort – but as his interests are confined to a rather limited geo-historical area only, his insight is not turned into a more general account of the evolution of global political economy as a whole.

Also in the aftermath of the global financial crisis of 2008-9, Keynesian-type of responses are usually posed only, or primarily, in the national-statist context. There are limits, however, to thinking about policy-ideas in limited territorial-statist terms, although the simultaneity of responses can mean, in effect, co-ordinated actions. However, Keynes himself was not confined to national imaginaries; he envisaged the global political economy as a single whole. Keynes (1980, 46) wanted to avoid political struggles and asymmetrical situations where specific countries are 'put into a position of particular obligation to others', easily triggering chain reactions.

Obligations should thus be made systemic and financial positions defined against the rest of the world, not against individual countries. Keynes also maintained that 'central control of capital movements, both inward and outward, should be a permanent feature of the post-war system' (ibid., 52). The world should not be allowed to be dominated by unstable global finance. Moreover, no unnecessary

external pressure towards contractions should be exercised against any country. On the contrary, at the time of a downward phase in a business cycle, expansionary policies should be made possible and encouraged also internationally.

Despite these important openings, Keynes did not fully address the structural discrepancy between the world of territorial states and open spaces of the globalising capitalist market economy. For Keynes, states remained the locus of economic policies. In the early 21<sup>st</sup> century, the problem has arguably become fully global: ‘the global regime of accumulation is unable to establish reasonable levels of demand and productivity growth’ (O’Hara 2006, 208). Keynes’s own response is thus insufficient.

Moreover, Keynes wanted to establish a non-political and technocratic system of global governance. He felt that the world economy should be regulated in an autonomous and automatic way – it should, as far as possible, operate like the market in classical economic theory. See Swedberg 1986, 378; see also Teivainen 2002). The doctrine of neutrality presupposes particular technical knowledge about management of the world economy as fundamentally true, i.e., Keynes’s own ‘general theory’. It also presupposes a particular theory of justice. This theory is, in a limited sense, redistributive, and was also meant to be a defence of the capitalist market society and free trade. Keynes’ plan was technocratic and elitist, in many regards fixed and thus unchangeable, since no proper mechanisms of democratic change were included. And although Keynes adhered to the idea that international relations should be based on the rule of law, in effect he would have left the interpretation of law to the American and British governments. (For a discussion of Keynesian global governance in terms of theories of global justice and democracy, see Patomäki 2008, 184-194; Khan 1998, chs. 6 and 7; 2008b).

### The Relevance of a Neo-Kaleckian Approach

In this section, we make a case for thinking that Keynes’ critique of neoclassical economic theory and his alternative theories of particularly the effective demand and of money and credit can be considerably strengthened by following, in a complementary fashion, a neo-Kaleckian approach which avoids some of the inconsistencies of neo-Keynesianism and thereby promises to offer a more solid foundation for critically and scientifically realist IPE and GPE.

A move to Kalecki can be justified from a variety of philosophical perspectives – see Patomäki (2002, 2003), Miller (1987), Boyd (1984), Khan (2002c, 2008c), Hull (1988, 1999), Fodor (1983, 1984) and Kitcher (2001) – of scientific and critical realisms. The argument which follows stresses the role of realistic assumptions and focus on real-historical causal processes. Needless to say, the argument is not that this is the only possible critical scientific realist approach to IPE and GPE; but rather, the following concrete suggestion for a research agenda, involving also theoretical analyses at various levels of abstraction, are intended to establish the plausibility of a Kaleckian and neo-Kaleckian approach to IPE and GPE.

Michał Kalecki’s 1933 paper on business cycles argued that effective demand rather than a scarcity of resources was the paramount macroeconomic problem in a modern capitalist economy. Thus he can be credited with discovering a key element of non-

neoclassical macroeconomics three years before the publication of Keynes' *General Theory* in 1936.<sup>10</sup> However, it is also fair to point out that Keynes went much further in developing departures from the quantity theory of money by arguing that money and finance play an active causal role in the economy and by exploring the role of long-term expectations (ch 12 of the *General Theory* in particular), finance, speculation and uncertainty among other things. Thus Mario Nuti's (2004, 3-9) assessment that these two economists' thoughts were both original and distinct – and overlapping at the same time in some areas – may be both fair and closer to the truth.

We want to argue that there are a number of Kaleckian propositions which offer significant advantages for advancing serious research in IPE and GPE. Without being exhaustive, we outline ten propositions that address important problem areas of firm, industry and macro political economy. In each case, there is much work to be done in order to work out and extend the insights to the international and global realm. In what follows we categorize the main areas we wish to suggest for future research in IPE and GPE ranging from the realm of the real sectors to that of money and finance and from the political economy of capitalism to thinking about problems of possible post-capitalist global political economies.

**1.** In a capitalist economy, underutilization of capacity is the norm. This stems largely from a lack of effective demand.<sup>11</sup> Keynes and Kalecki arrived independently at this insight about a mature capitalist economy in particular. Kalecki's formulation, as we discuss below, is in some respects clearer and more sensitive to the link between distribution and effective demand. Kalecki's macrodynamic theory of effective demand is also connected with his theory of trade cycles and thus overcomes to a large extent the static nature of conventional macroeconomic theory in this area.<sup>12</sup> As we discussed before, the problem of global effective demand is an important aspect of current research in GPE and IPE.

**2.** Kalecki's own and Kaleckian price theory departs from the neoclassical orthodoxy – both partial and general equilibrium theories, to be precise – by taking the price setting power of the modern corporation seriously and exploring its consequences. Kalecki himself developed the concept of 'degree of monopoly'. According to Kalecki, it is consistent with the firm level empirical evidence in at least the advanced capitalist economies to assume that average variable costs of a firm are constant until full capacity is reached. Since there is usually excess capacity, prices are set by the firms with varying degrees of market power according to a formula which includes a mark-up on average costs.<sup>13</sup> Once full capacity is utilized demand may have a role to

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<sup>10</sup> There is now a solid core of scholarly evidence that Kalecki had indeed formulated the principle of effective demand before Keynes; see Robinson 1977; Targetti and Kinda-Hass 1982; Sawyer 1985; Asimakopulos 1989; Harcourt 1991.

<sup>11</sup> See along with the works by Kalecki and the post-Keynesians cited here, the very interesting work by Rowthorn 1981 and Wood 1975.

<sup>12</sup> For policy implications of Kalecki's approach in modern economies, see particularly Flassbeck 2004, 125-142.

<sup>13</sup> In the standard neoclassical theory, prices (P) equal to marginal costs (MC) and marginal revenues (MR). Marginal costs are rising because marginal productivity tends to decline. Keene 2004, 54-84, shows that the neoclassical scheme  $P = MC$  is, in general, theoretically impossible. Kalecki 1969, 13-31, argues that unit costs are in fact fairly stable, and that prices are set in relation to the unit prime cost  $u$  and to reflect the weighted average of the prices of other relevant firms  $\bar{p}$ , i.e.  $p = mu + n\bar{p}$ ,

play; but Kalecki observed that overall excess capacity is the norm in a capitalist economy (Kalecki 1954). This can provide a plausible firm-level basis for explaining global stagnation and inflationary tendencies and thus lead to rigorous formulation and testing of specific theories in GPE and IPE.

**3.** A variation of the above is the price-leadership case (Asimakopulos 1975) with vertical integration. Another variation is by Cowling (1982) and Cowling and Waterson (1976). In these models, the assumptions of profit maximization and strategic interactions lead to short-run price fluctuations that are due to cost factors. Clearly, these variations can have logical global extensions that can have significant explanatory and predictive powers regarding TNC pricing and output behaviours. The work by Eichner (1976) explicitly introduces the environment where a ‘corporate revolution’ has occurred. With oligopolistic market structure, the typical firm is a ‘megacorp’. The standard pricing behaviour under such conditions is that of mark-up pricing and includes the needs to finance investment plans as well (Ball 1964; Wood 1975). Cowling and Waterson also discuss how a ‘megacorp’ can use investment in excess capacity as an effective barrier to entry (see also Reynolds 1989). Given the widespread interest in exploring the roles of the TNCs in the global political economy, a coherent analytical and empirical research program that is ontologically rooted in a critical scientific realist program can be launched via this type of Kaleckian microeconomics.

**4.** Kalecki (1954, 7) also explores the analytical linkages between the power of trade unions and change in the degree of monopoly.<sup>14</sup> Thus labour’s share of output is not determined just by the technical conditions of production as in the neoclassical marginal productivity theory of distribution. Kalecki (1971) introduces an explicit role for class-struggle (see also Harcourt 1965) via collective labour militancy and bargaining institutions.<sup>15</sup> The Kaleckian institutional approach towards distribution can be developed further with a view to explain the global movement of capital and the possible strategies for the global/regional organization of labour movements and the possible linkages with other global/regional social and political movements.

**5.** According to Kalecki (1938, 1939a, 1939b, 1940, 1954, 1966, 1970, 1971), a more egalitarian distribution of income and wealth can increase effective demand (see also Marglin 1984). Consequently, reduction of inequalities of income and wealth can increase employment and growth prospects for a capitalist economy. The problem with this has to do with relations of power (Kalecki 1943). Many of the so-called ‘economic experts’ are closely connected to banking or industry, and opposed to egalitarian doctrines. In a free market system investments depend on business

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where the relative weights and coefficients  $m$  and  $n$  depend on the degree of monopoly. To this scheme should be added Schumpeter’s, 1939, 59, 98-92, points that it is the (legally protected) innovations that make ‘monopoly profits’ possible, and that there can be no continuous supply curve because each point – at which costs are fairly stable – depends on particular technological and organizational arrangements. With technological and organizational improvements, the average costs will normally fall. Moreover, in many cases the demand and supply are not independent of each other, for example when product differentiation is effected through marketing that accounts for a substantial part of the production costs.

<sup>14</sup> For further discussions of Kaleckian approach as opposed to the neoclassical “micro-macro connections”) inter alia, see Basile and Salvadori 1984-85, 249-262; Bhaduri and Marglin 1990, 375-393; Carson 1994, 411-434; Cowling 1982, 1985.

<sup>15</sup> For further developments, see Thirlwall 1979, 45-53; and Wood 1975.

confidence, which gives indirect control of government policy to business. The reasons for the opposition to egalitarian full employments can be subdivided into three categories: (i) dislike of government interference in the operations of private economy in general; (ii) dislike of the direction of government spending (public investments and subsidizing consumption); (iii) dislike of the social and political changes – especially democratization of the workplace – resulting from the maintenance of full employment. In a Kaleckian spirit, we may summarize that the money and wealth commanded by modern oligopolistic firms can be translated into political influence both directly and through indirect mechanisms. Therefore, the long run tendency towards overaccumulation of capital relative to effective demand and tendencies towards crisis will still be there albeit in an attenuated form even in a fully-fledged social democratic national economy, which remains vulnerable also to the exit of capital and investment strikes. Despite important works such as Ryner (2002), much fruitful research remains to be done by IPE and GPE scholars in this area,

**6.** Kalecki's (1944a; 1954) early work already contained ideas regarding money and credit integrated with production and exchange in a capitalist economy. Post-Keynesian theories of endogenous money in a credit money economy can be linked directly with these Kaleckian ideas and developed further (for close parallels, see in particular Moore 1988; Myrdal 1939). Dymski (1996) is a particularly clear and apt exposition of Kalecki's monetary economics. On the one hand, any attempt to curtail the flow of money that is required for production will lead to cutbacks in production. On the other hand, speculation in a monetary and financial market economy is an ever present possibility, creating a liability to financial crises. Kaldor (1980), Arestis and Eichner (1988), and Arestis and Driver (1987) among others, are examples of extensions of Kaleckian approaches to money and finance in both closed and open economy settings.<sup>16</sup> The open economy case is obviously relevant, although it is also true that the distinction between domestic / international is a limitation of Kaleckian theory. When domestic interest rates and exchange rates affect each other (Arestis and Eichner 1988), the analysis can be carried out by explicitly incorporating the current and capital accounts in the model. Marginal propensities to import for the two main social classes and their various strata may differ and speculative capital flows along with other types of capital flows may be part of the model (Khan 1997; 2004a,b; 2006). One striking implication of such models is that no matter what the exchange rate regime is, the distribution between various groups and the overall macroeconomic constraints will determine the demand for money and credit.<sup>17</sup> Furthermore, the international institutions and their policies can matter a great deal (see also Khan 2004a,b). Once again such considerations can have serious consequences for a scientifically realist and critical analysis of money and credit in IPE and GPE.

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<sup>16</sup> See also Reynolds 1989, 229-69; Robinson 1962, 1966, 1977; Rowthorn 1981, 1-39.

<sup>17</sup> What Kaleckian models typically do is to outline general- and realistic-looking conditions in which the decision-making rules of the firms can generate a system of investments and production that oscillates around a long-term growth-trend; possibly even in an unstable manner or with an increasing amplitude; and where various distributional and other effects occur. However, the simple mathematical categories of these kinds of models – and several implicit or explicit neoclassical assumptions – are abstracted away from the more general dynamics of world economy (for instance, innovations are given only a cursory treatment in two pages in Kalecki 1969, and there is little if anything about unequal geo-historical developments). Moreover, Kalecki's categories are not anchored in the explicit study of history (e.g. geo-historically evolving fields involving the *habitus*, and legal and institutional framework, of the decision-makers in firms). Thus Kalecki's theories disregard changing practices and geo-historical constellations of complexity; and thus may have only limited or illustrative validity.

7. In Kalecki's theory, investment is a function of the level of profits, the total capital stock and the rate of interest. Both internal and external sources of investment are important; but Kalecki crucially introduces a principle of increasing risk.<sup>18</sup> Firms in capitalist economies do not realize their full investment potential because risk tends to increase as total investment increases (Kalecki 1971). Robinson (1966) and Steindl (1952, 1979) follow up on some Kaleckian ideas regarding investment from the 1930s and 40s to further develop the possibility of stagnation of investment as well. In all these treatments as investment proceeds, there is an increase in concentration, an accentuation of cyclicity and long run tendency of stagnation. This is at the heart of Steindl's 'maturity thesis' which is inspired by Kalecki's work on investment (see also Baran 1957). Furthermore, there are parallels with Schumpeter in the intersection of investment and innovation. We can thus say that investment cycles are self-generated within the system of profit-making investments that involves innovations that are co-determined within the system. While Kalecki does not present a theory of innovation through creative destruction, he sees the same tendencies in capitalism as does Schumpeter in *Capitalism, Socialism and Democracy*; however, Kalecki remains more pessimistic about social democratic solutions to problems of investment and innovation in capitalism without systemic transformation, for reasons outlined above.

Kalecki himself was primarily a theorist of business cycles. A cautious thesis consistent with his work in this area is perhaps that the instabilities of capitalism have implications to maintaining a long run vigorous growth trajectory in a complex nonlinear and ultimately unpredictable system of political economy (Levine 1982, 1986; Khan 1982, 1983, 1998, 2004a, b). Thus an exciting possibility exists to do both macro systemic and micro subsystemic work in IPE and GPE following these leads. James and Khan (1997, 1998) and Khan (1997, 1998) are some examples of beginnings of theoretical and empirical work in the Keynes-Kalecki-Schumpeterian systems approach. However, we also maintain that lack of efficient aggregate demand occurs not only, or primarily, within states, but in the world economy as a whole, which is, of course, divided into states. Capitalist market economy – integrated across the planet to varying degrees – and states within it are part of the same system that self-generates partly synchronized fluctuations, cycles and crises that manifest themselves at different scales of time.

8. There is thus an obvious extension of Kaleckian propositions with respect to employment, growth and inflation in the global economy as a whole (for a rigorous analysis of this aspect in particular, see Pasinetti 1974). Various struggles are being played out in spatial and institutional settings that are much wider than the confines of any particular sovereign state, and the consequent arrangements co-determine the conditions of growth, allocation of resources and distribution of wealth as well as the conditions that are relevant to business cycles and unemployment.

9. Kalecki's ideas can also have great relevance for a proper design of a non-deflationary Global Financial Architecture (GFA). Here some of Kalecki's earlier contributions are now gaining belated recognition. In the 1940s, along with Keynes, Kalecki also proposed a 'double-entry bookkeeping clearing house' (cf. Keynes 1936, 1980a, b; Davidson 1992, 1992-3). Such a clearing house would have provided overdraft facilities for using unutilized credit balances making the problems of deficit

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For a recent exposition of Kalecki's principle, see Tracy Mott 2004.

countries less acute and holding the surplus countries responsible for correcting global imbalances as well. One of Kalecki's visionary proposals in the GFA discourse was to institute an international investment organization with both short and long term financing facilities (Kalecki and Schumacher 1943; Kalecki 1946). Kalecki (1946) also insisted on full employment targets and symmetric treatment of both surplus and deficit countries. Khan (2002, 2004a, 2008a,b) elaborates on some of these Keynesian-Kaleckian ideas in the context of a symmetric hybrid GFA where symmetric Regional Financial Architectures can also play a crucial role. Further critical work in these areas of IPE and GPE is currently an urgent necessity.

**10.** Kalecki was not only an analyst of capitalism, he was also a subtle critic of state-bureaucratic-socialism and a development economist as well. While he analyzed the problems of capitalism and emphasized the need for systematic social coordination away from markets, he realized through sometimes bitter professional experience that the Polish central planning was undemocratic, bureaucratic and wasteful. Kalecki stressed the need for democratic planning. In particular he emphasized the role of genuinely free workers' councils and democratic participation. There is an unfinished – or even barely beginning – agenda for postcapitalist political economy here, especially in the context collective democratic planning of the evolution of the world economy as a whole.

Likewise, Kalecki's views of development emphasized the need for mobilization of surplus labour and capital formation without sacrificing the ordinary people in the process. Something like today's human security approach underpinned by considerations of social capabilities and human development is implicit in his general development theory and-- in a critical way-- in his brilliant idea of "intermediate regimes" (Kalecki 1971, 1972; McCartney, Matthew and Harriss-White 2000; Raj 1973; Jameson 1980; FitzGerald 1979). Basing himself on the empirical work on developing economies like Egypt, he theorized that under some circumstances a relatively stable hegemony of the petty bourgeoisie in both urban and rural areas, often led by or in alliance with some anti-imperialist sections in the army, can form such a complex and contradictory regime. Later this idea was applied to other developing economies in Asia, Africa, the Carribeans and Latin America (Sachs 2004). Most intermediate national regimes, however, run the risk of being overwhelmed by the contradictions and creating stagnant and, at times, repressive and undemocratic practices of domination. Clearly, more systematic explorations on the globally effective embodied *habitual*<sup>19</sup> and institutional conditions of the possibilities of alternative practices are required.

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The concept of *habitus* has its origins in the psychological genetic structuralism of Jean Piaget (Lizardo 2004). The *habitus* of embodied actors is a generative dynamic structure that adopts and accommodates itself to another dynamic field composed primarily of other embodied actors and geo-historically situated practices and institutions within which actors are positioned. A *habitus* is made possible and constituted by the collective historical development of schemata of perception, prototypes, categories, metaphors and framings, and of explicit ideas and theories built upon these foundations. *Habitus* refers to the mastery of habitual – in some ways always also spontaneous and improvising – know-how drawing from the available historical resources and providing the basis for everyday classifications, interpretations, judgments and actions. 'One of the reasons for the use of the term *habitus* is the wish to set aside the common conception of habit as a mechanical assembly or preformed programme'; Bourdieu 1977, 218.

### Towards a generic field theory of global political economy

Neo-Gramscian GPE has concentrated on describing and explaining changes in the forms of state and governance of the capitalist world economy. The most common theme has been the neoliberal transformation that has swept the world since the 1970s. In the 1990s, the main focus has been in the establishment and locking-in of this neoliberal transformation. We would like to suggest that this focus could be merged with political economy theories in terms of a theory of generic fields of global political economy (Patomäki 2010). As has been made clear by Kalecki and Kaleckian studies, the social determination of economic policy discourses and practices takes place within, and is an essential aspect of, political economy processes. An interesting possibility is to conceptualize these processes in terms of learning within interacting generic fields that have powers and tendencies to manifest characteristic properties P and produce particular outcomes O.

Fields are spatially distributed potentials across social activities and practices. The overall structure of a field or the organization of an environment can be the cause of what is happening in it (Bhaskar 1997, 85). In a field, an intrinsic condition is not necessarily an internal state of an individual or collective actor or inside its physical or socially constituted envelope (see Harré & Madden 1975, 87). Like Pierre Bourdieu, we refer to the concept of field in terms of a partial analogy to various physical fields.<sup>20</sup> The analogy is only partial because social science is not a social physics; people, unlike mass, particles and waves, can and do change the principles that structure a field (Bourdieu & Wacquant 1992, 101-2). Bourdieu's concept of field implies that social space does not exist in the abstract, but must always be understood in terms of the relations between each space and other spaces, and in terms of the struggles over values, resources and positions among agents in each social space.

The fields of global political economy are generated by structurally conditioned processes of collective learning, embodied in actors and embedded in collective institutions, including those of liberal capitalism revolving around exclusive private property rights and competitive markets. In terms of the analogue to a physical field, a social field is organized by the prevailing dispositions of actors' *habitus* and consists – in addition to embodied actors – of relational positions of practices that involve a particular distribution of resources, bending social space-time and thus defining the relatively effortless or obvious direction of social activities in pursuit of the desirable values and things characteristic to that field. In the absence of causal interventions by processes external to that field, a field tends to generate a particular overall direction of outcomes. Going against the directions outlined by a prevailing field takes a lot of energy, or sustained ethico-political efforts, and can be difficult. Socio-historically, however, the concept of field also comes close to a 'game' or 'battlefield', in which actors struggle not only over resources and positions within given directions but also over the ethico-political and political economy directions themselves. The latter is especially important when different fields co-exist in the same spaces.

Fields of global political economy are not ahistorical. Rather they have deep geo-historical roots and continue to evolve. Since the late 19<sup>th</sup> century, for instance, many

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<sup>20</sup> Introduced in Bourdieu 1968; and further discussed and developed in various works, for instance in Bourdieu 1993, 72-77, and Bourdieu 1998, 31-4, 78-85.

relevant structures and institutions of liberal-capitalist market society have changed; and so have the ways in which these fields – including the field of orthodox liberalism, alongside with others – are evoked and generated. Together the prevailing fields, as well as the mechanisms and complexes that generate them, constitute what can be called the *holomovement* of the global political economy as a whole.<sup>21</sup>

The global political economy as a whole does not always satisfy the superposition principle. Its output is not necessarily proportional to its input. For example, although conditioned by the structural discrepancy between territorial states and global economy, and by the prevailing levels of ethico-political learning, the amplification of the field of orthodox liberalism – neoliberalisation – has been a path-dependent process. However, given positive feedback loops through the realization of institutional arrangements characteristic to the orthodox-liberalist field and their inherent dynamics which, in turn, tend to reinforce field's potential; and given the way *habitus* tends to adapt to the prevailing field through various power mechanisms; the 'population' of the orthodox-liberalist type *habitus* has grown exponentially.

There are several reasons why this 'population'-growth is likely to turn out unstable. Actors do learn from experiences. Strong oscillations with increasing amplitude around a decreasing economic growth-trend can swing the burden of proof towards *ortodoxa*, especially at the time of a crisis and widespread unemployment (cf. Patomäki 2005; 2008, chs 5-8). Illusionary and fallacious responses to changing conditions and circumstances can lead to escalation of conflicts. The way the prevailing generic fields have come to be laid out in the early 21<sup>st</sup> century implies a significant liability to catastrophic interactions among the fields. Arguably, there is real potential also for a planetary military catastrophe.

The underlying learning process is at the heart of what can be called the planetary *holomovement*. The inner 'code' of the whole evolves and creates bursts of concrete geo-historical processes through which its forms and parts are transformed and metamorphosed. If this line of argumentation is even roughly correct, we consider it likely that the world history will prove neoliberalisation – i.e. the re-amplification of the orthodox liberalist field – as a relatively short-lived phase. The transformation and metamorphoses of the systems of global governance can come about via crises or even catastrophes, and clearly at least some sort of major triggers are required to initiate these processes, but the *holomovement* itself is more deeply grounded in the genetic structures of collective cognitive learning (seen as potential, not necessarily actual in any given context; and involving the possibility of pathological learning).

Yet the process is uncertain and open-ended because of the open-systemic nature of social realities. A key question has to do with the issue Keynes and Kalecki discussed, concerning the viability of Keynesian policies and orientations within capitalist market economy. Would a system of global-Keynesian governance be sustainable,

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<sup>21</sup> The Greek word *holo* means 'whole'. Holonomy is the causal process of determination of the whole, providing a broad enough context in which various autonomous / heteronomous forms are seen to be merely aspects, reelevated in a holomovement, rather than disjoint and separately existing things in interaction. Through our conceptions we can of course abstract particular aspects of the holomovement – such as actors, practices, structures, mechanisms and fields – but each theory will abstract certain aspects that are relevant only in some limited context. Relevance is indicated by reasons of understanding and improvement that put truth and factuality first. See Bohm 2002, 182-99.

despite the ubiquitous tendencies towards concentration of wealth and power in a system based on the primacy of private ownership of means of production? What kinds of institutional forms and arrangements could simultaneously (i) countervail these tendencies and (ii) enable further collective learning and, thus, take the holomovement of human history progressively forward? How can we get back to the future without falling back to the *ortodoxa* of economic liberalism once more?

### Conclusions

In this paper, we have argued that the current practice of basing research, in the mainstream American IPE in particular, on neoclassical foundations is flawed – although as no theory is ever categorically wrong, also some neoclassical theories may provide partial and limited insights. At the same time, however, we have proposed ways to enrich ‘British’ GPE by giving it a firm and substantive non-neoclassical political economy foundation. To do this, we have explored aspects of the economic theories associated with Keynes, Minsky and Kalecki in particular. Our main motivation for doing this is to make the transition from a negative-critical agenda to one that poses a reconstructive research agenda for IPE and GPE.

It is important to avoid possible misunderstandings. Our proposed agenda for research in IPE and GPE is meant to be not a substitute for but a complement to much interesting and important work already going on in many of these areas. It should also be stressed that the Keynes-Minsky-Kalecki theories, brilliant and full of potential as they are, still reflect many of the limitations of standard twentieth century political economy, even in its critical incarnation. Chief among these defects – as we have to some extent already alluded to – are relative neglect of ecology, gender and race. In Kalecki’s case, however, his concern with the condition of the oppressed, both in developed and developing countries, gives an implicit gender and race dimension that can and must be made explicit and developed. Likewise, Kalecki’s emphasis on resource cost minimization of investment from a social perspective arguably carries ecological implications, but requires further development.

Thus, further extensions in the directions of social classifications and ecological political economy are possible. Another important obvious area of extension would concern the role of commodification for economic growth measured one-sidedly in terms of market value of transactions, on the one hand, and its implications to human welfare, well-being and flourishing, on the other. But most importantly, we have proposed ways of globalizing this approach in terms of conceptualizing capitalist market economy – integrated across the planet to varying degrees – and states as part of the same system that self-generates partly synchronized fluctuations, cycles and crises. These fluctuations, cycles and crises – from which actors are learning – manifest themselves at different scales of time, and can lead to various *habitual* and institutional responses, with intended and unintended consequences.

We have thus also suggested the possibility of a generic field theoretic approach that can integrate the concerns of IPE/GPE and Keynes-Minsky-Kalecki type of economic theory. The fields of global political economy fields are generated by the *habitus* of actors and by the cognitive and ethico-political schemes and historical lessons embedded in collective institutions. Collective learning changes both and the way

they organize social space and time, but collective learning is also conditioned by relations of structural power and can assume pathological forms. A field can have generic potential for spatial extension for example through the re-location of productive and financial capital. The inner generative structures of each field should be seen as formative causes constituting an ordered and structured inner movement that is essential to what things are. This can be used as a basis for theorizing both various specific political economy outcomes and the planetary *holomovement*.

Although much work remains to be done, enough has already been accomplished to establish the plausibility of the suggested approach. It is only the actual relevance and fruitfulness of concrete theoretical and empirical work in the future that can establish the validity of our Keynesian-Kaleckian inspired proposals. However, given the critical scientific realism of the approach we propose, and the fairly strong empirical confirmation of many of its parts so far, it is not unrealistic to hope that even this partial agenda can eventually lead to a progressive theoretical, policy-oriented and emancipatory research program in IPE and GPE.

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