Economics 706  
Macroeconomics II  
Gerald Epstein

Fall, 2013

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The class will normally meet in the Ninth Floor seminar room of Thompson Tower. In the event that the Thompson seminar room is being used for a department function, we will inform you of the substitute room we will use that day.

If some of you would like to set up a regular meeting outside class to discuss class-related issues, let me know. Feel free to email at any time about class business. On non-class days, I spend a lot of time in my Gordon Hall office.

Grading

1. **There are two papers worth 35 points each.** The first will be on issues of economic theory and methodology in Keynes’s work and in post-Keynesian economics. The second will be on one of a number of topics covered in the second part of the class. The first will be due roughly around the middle of the semester and the second will be due shortly after classes are over.

2. **Class participation is worth 30 points.** This includes short papers, preparation of questions and comments about readings, class presentations and class discussion. The more active you are in class discussions, the more interesting the course will be. **It will be almost impossible to get an A in the course unless you get most of the points here.** I will announce in class short – paper assignments and class presentation assignments, etc.

3. **Prerequisites:** Econ 705 or equivalent and some familiarity with Marxian theory.

Moodle Site
Using the **moodle site** for this course will be important. Most of the articles and non-book readings (and even a few book readings) are on or accessible through the site. There will also be class notes and other important materials posted there as well. Also, we may ask you to upload some of your assignments to the moodle site. So make sure you have access to and can use the site.

**Books**

1. **Buy J.M. Keynes; The General Theory of Employment, Interest and Money** at Amherst Books (sometimes referred to as the GT). We will use this immediately.

2. You may also buy Lance Taylor’s , Maynard’s Revenge: The Collapse of Free Market Macroeconomics, Cambridge: Harvard University Press, 2010. THis is also available at Amherst Books. At various points in the course we may refer to parts of this book as well.

**Reading List: Part One**

Part One will deal with the writings and thought of John Maynard Keynes and some Post-Keynes work.

Parts Two and Three will cover theories of competition and their effects on macro and micro economic theory (and the relation between the two), the rising influence of financial markets on economic outcomes since about 1980, theories of the ‘financialization’ of the nonfinancial firm in the current era, and analyses of the current global financial and economic crisis.

Please note that items on the reading list followed by ** are either on the moodle site or on electronic reserves. Volumes of Keynes's Collected Works are on regular reserve. Items with an ** are required reading and items with a * are important. HP is Jim Crotty’s home page, where many of Crotty’s articles are available. (http://people.umass.edu/~crotty/)

Do not Panic: This list is bibliographic. I will only discuss a very small percentage of it in class, but you can use it to help with your research for assigned papers.


Crotty has an unpublished and in-process manuscript tentatively titled Keynes's Radical Views on the Economic Role of the State: the Centrality of Planning and Public Investment - hereafter Keynes Manuscript. It is available on moodle. It is a description and analysis on the evolution of Keynes’s policy views, as informed by
the evolution of his theoretical perspective, from WWI until his death in 1946. I will assign sections to read over the first half of the course. (Jim Crotty is very interested in receiving feedback from students either in the form of criticism or of constructive suggestions for improvement of the manuscript.)

**Biographies of Keynes**

* R. Skidelsky, John Maynard Keynes: 1883-1946: Economist, Philosopher, Statesman (Penguin, 2003). This is the best available Keynes biography. It is even better in the three original volumes.


*Understanding Keynes’s views on political economy through his own work.*

If you don’t understand his ‘vision’ and his policy views before you read the GT, you will only see the IS-LM curve and counter-cyclical macro policy, and you will miss his call for the radical transformation of capitalism. These readings will help you do that. Read as many as you can.


** **, "National Self-Sufficiency," Yale Review, June 1933, 22 (4), pp. 755-769. This is the most important short statement of Keynes’s ‘radical’ positions on policy. You have to read it.


** **, Collected Works, Volume XX, "The Question of High Wages," pp. 3-16, (to be read with ch 2 of the GT), R.

**J.M. Keynes, The General Theory,** Preface plus chapters: 1, 3, 5, 8-10, 11 and 12, 13-15, 18, 19, 21, 22, 23 and the curious chapter 24. Chapter 12 is central because it contains Keynes’s fullest discussion of the effects of uncertainty on financial markets and the capital investment decision.

**J.M. Keynes, "The General Theory of Employment," Quarterly Journal of Economics, 41 (2), Feb. 1937, 209-23. As noted above, this post GT defense of that book demonstrates that the concept of fundamental uncertainty is the key to Keynes’s macro theory. It is a must-read.


**R. O’Donnell, Keynes: Philosophy, Economics and Politics, (London: Macmillan, 1989). Chs 11*, 12* and 14* are a must; 8 and 9 are recommended. (you will be able to get these on eReserves and or Moodle)

*G.L.S. Shackle, Epistemics and Economics (Cambridge, 1972 and Transaction, 1993), especially chs. 1*, 7, 8, 12*, 15*, 16*, 18, 19*, 20, 21*, 33, 34, 36*, 37*, 38 (the *s are perhaps the most interesting). Shackle is one of the great figures in the economics of true uncertainty. (you will be able to get these on eReserves)


*R. Frydman and M. Goldberg, Beyond Mechanical Markets (Princeton University Press, 2011). Chs 1-6 present an analysis of the implications of uncertainty for the theory of financial markets and for macro economics by two economist who are well respected in the profession. It is a ‘modern’ discussion of this crucial issue.


*Lance Taylor, Maynard’s Revenge, Chs. 1 – 4.

A. Terzi, "Keynes's uncertainty is not about white or black swans," Journal of Post Keynesian Economics, Summer 2010, 32 (4), 559-65. A clear and short explanation of the difference between epistemological and ontological uncertainty.


*D. Dequech, “Conventional and unconventional behavior under uncertainty,” JPKE, Fall 2003, 26 (1), 145-68. Dequech has built his career interpreting and evaluating the role of uncertainty in Keynes's theory and in general.


Behavioral Economic Theory:

The central issue here for us is: What is the relation of Behavioral Theory to Keynes’s radical critique of mainstream theory? Is it a substitute for or complement to Neoclassical Theory? Is it built on fundamental uncertainty or irrationality? (This section will not be discussed in class, but the topic is interesting and you can write a paper about it. Suggestions for new entries appreciated.)


Akerlof, G. A. (2002), Behavioral Macroeconomics and Macroeconomic Behavior. American Economic Review, 92(3), 411-33. An important but very limited attack on mainstream macro theory. This is a wonderful example of the differences between
Keynes’s macro theory and mainstream theory as influenced by behavioral and experimental economics.


III. The Keynes-Minsky-Marx Financial Instability Thesis

A. The Keynes-Minsky Tradition
**J.M. Keynes, The General Theory, Ch. 22.**

**H. Minsky, Stabilizing an Unstable Economy, (Yale University Press, 1986), chs. 7-9.**


**Crotty, "Owner-Manager Conflict and Financial Theories of Investment Instability: A Critical Assessment of Keynes, Tobin and Minsky," JPKE, 12 (4), Summer 1990, 519-42, R, HP.


*Lance Taylor, Maynard’s Revenge, Chs. 4 - 7.


**B. Marx on Money, Finance and Crisis: Is Marx's Theory Compatible with Keynes-Minsky Theory**

**J.Crotty, "The Centrality of Money, Credit and Financial Intermediation in Marx's Crisis Theory." In S. Resnick and R. Wolff, eds., Rethinking Marxism (New York; Autonomedia, 1985), 45-82. (This is an important and original interpretation of
Marx’s theory of the role of finance in macro dynamics. 😊) The paper argues that crucial insights in Keynes’s and Minsky’s theory of financial instability are incorporated in Marx’s theory. Note: It would help to read or reread Capital Volume One, ch. 3 “Money, or the Circulation of Commodities,” before reading my paper. HP.


*David Harvey, The Limits to Capital (Verso 2007 (new edition)). This is an excellent treatment of the role of money and finance in Marx.


**Reading List Part Two**

**IV. Slow Aggregate Demand Growth and Destructive Competition: Their Implications for the Theory of the Dynamics of Global Neoliberal Capitalism.**

Section Thesis: You cannot have an adequate theory of macro dynamics or of economic and financial crises without a realistic theory of the nature of competition.

A. Competition and Investment


B. Schumpeter on Creative Destruction, Oligopolistic Market Structures, and “Corespective Competition”: Are Marx and Schumpeter Complements or Substitutes with respect to the Theory of Competition?
The first two readings are central to an understanding of the role played by competition in both theory and history. Schumpeter stresses the theory, while Chandler provides rich historical evidence that, in the main, supports Schumpeter’s ideas. Read both critically; they are not without their flaws. Indeed, it would be a useful exercise to ask yourself as you read: what factors are missing from these theories that are essential for understanding economic theory or history.

**J. Schumpeter, *Capitalism, Socialism, and Democracy*, (George Allen and Unwin, 1942), chs 1-4, (6-8)*, 9-12. Chapters 1-4 are on Marx. Chapters 6-8 are on competition and cooperation in oligopolies. The ideas in chapters 6-8 are central to the theory of economic dynamics and must be read carefully. In chapters 9-12 Schumpeter explains why he thinks that capitalism be replaced by socialism. His reasoning is quite different from that of Marx.

**A. Chandler, *Scale and Scope: The Dynamics of Industrial Capitalism* (Harvard University Press, 1990), chapters 1*, 2*, 3, 4 (140-45), 5 (188-93), 6 (224-33), Conclusion (593-628)*. (The starred chapters are required and will be discussed in class.)

**J.B. Foster and Robert McChesney, *The Endless Crisis: How Monopoly-Finance Capital Produces Stagnation and Upheaval from the USA to China*. Paul Baran and Paul Sweezy published *Monopoly Capital* in 1966, a book read by virtually every radical economist in the US and Europe in the two decades that followed. The entry hypothesis of the book was that the laws of motion of capitalism that Marx laid out in *Capital* were only operative in the 19th century. As the 20th century proceeded, giant monopolies and oligopolies increasingly dominated global capitalism; what they called *monopoly capitalism* had very different laws of motion from the *competitive capitalism* analyzed by Marx, they argued. The implications of their theory continued to be elaborated in their influential journal *Monthly Review* to this day.

The coauthors of this book are the current co-editors of *Monthly Review*. Their book contains lots of informative material about long-term movements in industry concentration, evaluates various theories of competition including their own, and evaluates the role played by oligopolistic competition in influencing economic outcomes. In particular, they attack Schumpeter’s theory of dynamic competition. The MR school believes that all the changes that have occurred in US and global markets in the past century have strengthened oligopoly power, which has led to ever greater market power and ever more corepective behavior over time. It does not accept the idea that periods of market control have been interspersed with periods of fratricidal or destructive competition. Thus, there has been an uninterrupted rise in the ability of capital to cut labor costs and raise prices and increase capital's income share.

While we have serious criticisms of the MR school, we think it might be productive to discuss and critically evaluate their ideas about competition. The specific pages to be read will be filled in later.

**Crotty, J. Keynes's Radical Views on the Economic Role of the State: the Centrality of Planning and Public Investment**, pp. 99-116. Keynes had a good deal
to say about the problems caused by excessive competition. You can get a sample in this section.

**M. Best, The New Competition: Institutions of Industrial Restructuring (Cambridge: Harvard University Press, 1990), chs 3*, 4 & 6.** This is an important discussion of modes of competition and the modern economy. Check it out.


**C. Building Destructive Competition and Coerced Investment into a Theory of Global Neoliberal Capitalism**

This is an attempt to bring together ideas from Keynes, Marx and Schumpeter to bear on an analysis of the economic and financial problems and contradictions of global neoliberal capitalism around the turn of the century in 2000. The theory of destructive competition, with its offspring coerced investment and the chronic reproduction of excess capacity, is central to this analysis. You might ask yourself what I would have to change to adapt this theory tightly to today’s global conditions.


J. Crotty, “Why Do Global Markets Suffer From Chronic Excess Capacity?: Insights From Keynes, Schumpeter and Marx.” 2002, HP. (This article appeared as “Why There is Chronic Excess Capacity” in Challenge, Nov-Dec 2002, pp. 21-44.)

**Reading List Part Three**

V. The Effects of “Modern” Financial Markets on the Performance of Nonfinancial Corporations: What is “Financialization” Anyway?

**Gerald Epstein, Introduction, Financialization and the World Economy (Edward Elgar Press 2004).**

**J. Crotty, "The Effects of Increased Product Market Competition and Changes in Financial Markets on the Performance of Nonfinancial Corporations in the Neoliberal Era," 2002. This is my attempt to integrate the product market pressures from increased competition in the NL era with the impact of evolving financial markets on nonfinancial corporate performance. Again, you might ask yourself how I would have to revise the paper - if at all - to make it consistent with events since 2001. (Then tell me how to do it.) Available at PERI website: http://www.peri.umass.edu/fileadmin/pdf/working_papers/working_papers_1-50/WP44.pdf. The published version is “The Neoliberal Paradox: The Impact of**

**William Lazonik, "Innovative Business Models and Varieties of Capitalism: Financialization of the U.S. Corporation," Business History Review, 84 (Winter 2010), pp. 675-702.** This paper and the two that follow are recent analyses of the evolution of US corporations in the context of financialization by one of the most astute industrial organization theorists of our time.


* K-H Lin and D. Tomaskovic, "Financialization and US Income Inequality: 1970-2008," 2011, unpublished. This paper explores both the financialization of the nonfinancial firm and the relation of financialization to the rise in inequality in the past few decades. It shows econometrically that increased dependence on financial income by nonfinancial firms decreased labor’s share of income, increased top executives capture of revenue, and increased earnings inequality among workers.

*E. Stockhammer, “The Finance Dominated Accumulation regime, income distribution and the present crisis,’ Vienna University of Economics and Business Administration, Department of Economics Working Paper Series No. 127, April 2009, http://www.wu.ac.at/inst/vw1/papers/wu-wp127.pdf. This is a brief overview of some of the key issues and questions in this literature (Engelbert Stockhammer is a UMASS Amherst Ph. D.)

Concludes that it was on balance neutral, but has left the economy in bad shape, with a likely slowdown in AD in the future.


*Froud, J., Johal, Leaver, A. and Williams, K. (2006) Strategy and Financialisation: Narratives and Numbers (London: Routledge). Julie Froud and her various co-authors are a collection of post-modern Marxist accountants and professors of business who teach in British universities. As you can see below, they have written many articles on the financialization of non-financial firms. This book is their latest effort. It is well worth reading if you have a serious interest in this general topic.

*Ozgur Orhangazi. (2008) Financialization and the US Economy (Northampton: Edward Elgar). This is our good friend’s full dissertation. It contains the material in his CJE article above, but much else as well.

Photis Lysandrou, "Globalisation as commodification" (September 2005). Cambridge Journal of Economics, Vol. 29, Issue 5, pp. 769-797. This is a provocative paper offering one kind of Marxist analysis of why financialization on a global scale took place when it did, and why the globalization of finance and ‘shareholder’ capitalism was an essential step in forcing an ever increasing percent of the world’s economies to reorganize themselves to resemble the US’s economic structure and logic. The article is a bit too determinist for my taste, sees necessity at key junctures where I see contingency, and strangely asserts that financialization forces all financial and nonfinancial firms to become ‘transparent’ – did he miss the Enron-type scandals of the late 1990s? – but it is well worth reading and thinking about.

Froud, Julie, Colin Haslim, Sukhdev Johal and Karel Williams, “Cars After Financialization: A Case Study in Financial Underperformance, Constraints and Consequences,” *Competition and Change*, 7 (1), pp. 13-41. This is the only industry case study of the causes and consequences of financialization and globalization that I have come across.

I. Erturk, J. Froud, S. Johal and K. Williams, “Corporate governance and disappointment,” *Review of International Political Economy*, 11(4), 2004, 677-713. This paper has interesting things to say about a number of things, the issue of a new class alliance in NLR and role of agency theory and ideology in cementing NL ideas about relation between corporate capitalism and society.

Boyer, Robert, “Is a finance-led growth regime a viable alternative to Fordism? A preliminary analysis,” Economy and Society, February 2000, 29 (1), 111-45. This article discusses the changes in the regulationist model that Boyer thinks necessary to take account of the increasing dominance of financial markets in the determination of the laws of motion of current-day capitalism. He also presents a formal model that incorporates his ideas, though I think the ideas themselves are more interesting than the model.


Part III

The Rise of Finance Capital and the Current Global Economic and Financial Crisis
(Since the literature on this topic is exploding, please send us references to any really good articles you come across.)

An Historical Overview

Charles Kindleberger, Manias, Panics and Crashes: A History of Financial Crises (Wiley: 1979). This is the most widely read history of financial market booms and busts. It’s a great read.


Reinhart, Carmen and Kenneth Rogoff, “This Time is Different: A Panoramic View of Eight Centuries of Financial Crisis,” NBER Working Paper No. 13882, 2008. This is a widely cited source on the history of financial crises since the 19th century.

G. Arrighi, The Long Twentieth Century (Verso Press, 1994). Arrighi’s thesis that the rise of finance in the twilight of American hegemony is not the onset of a new social structure of accumulation, but rather a phase in a historical progression of the rise and fall of empires, has been very influential.

simple theoretical framework analytical model  Capital Resurgent: Roots of the neoliberal model. Cambridge: Harvard University Press, 2004. This book attempts to tell a coherent story about how and why the Golden Age ended and was replaced by the NL era from a traditional Marxist macro economic perspective. It also explains what role evolving financial markets played in this story, again from a broad macro perspective. See also their latest book.

**Causes of the Current Financial and Economic Crisis**
(There is an exploding literature on the causes and consequences of the financial crisis and on the adequacy of the government’s response to the crisis in the US and elsewhere. The readings here are merely representative of this burgeoning literature. We begin with articles on financial aspects of the crisis and move to articles that root the global crisis in long-standing contradictions in the real sector.)

**Articles that Emphasize the Financial Sector**


- **Gerald Epstein and Martin Wolfson, 2013. Introduction. (Handbook), pp. 1 – 16.**


- **J. Crotty (2010). “The Bonus-Driven “Rainmaker” Financial Firm: How These Firms Enrich Top Employees, Destroy Shareholder Value and Create Systemic Financial Instability,” August. Available as Economics Department Working Paper at: [http://www.umass.edu/economics/publications/2009-13.pdf](http://www.umass.edu/economics/publications/2009-13.pdf). This paper demonstrates how the bonus-system used on Wall Street provides rational incentives to key personnel to create bubbles that inevitably end in crashes. These “perverse incentives” were a major cause of the global financial crisis - and yet they do not appear in any major theory of financial markets, not in Marx or Keynes or Minsky. It may be difficult to cut financial instability in the future unless this system is changed.

- **J. Crotty and Gerald Epstein (2009). “Avoiding Another Meltdown,” Challenge, Vol. 53, No. 1, January-February 2009, pp. 1-26. The second half of this article is a list of suggested changes in financial market regulation to help prevent future financial catastrophes. (We did not expect our program to be implemented.)

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Tomaskovic and Kin, “Income Dynamics, Economic Rents, and the Financialization of the US Economy,” American Sociological Review, 76(4), pp. 538-99, 2011. This paper analyses the institutional and income dynamics associated with the financialization of the US economy since the 1970s. It estimates that around $6 trillion was transferred to the financial sector since 1980 and argues that explaining rising inequality requires a study of both market institutions and politics. It is a useful complement to Crotty 2010. At http://asr.sagepub.com/content/76/4/538.full.pdf+html.


Wray, Randall (2011). "Waiting for the Next Crash: The Minskyan Lessons We Failed to Learn," Levy Institute, Public Policy Brief No. 120. This is a short analysis of the causes of the financial crisis and some policy suggestions.


Publications with More Emphasis on the Real Sector


**Dumenil and Levy (2011). The Crisis of Neoliberalism, Harvard U Press (2011). This is the full statement of their theory of the development of the evolution of the current crisis of global capitalism that is the basis of the previous entry. It uses a fairly simple general theoretical framework within which to explain the main forces that created and reproduce the crisis.

**Kotz, David. (2011). "The Current Crisis in the US: A Crisis of Over-Investment. David argues that the current crisis, unlike some earlier crises, was not preceded by a decline in the profit rate. He defends the proposition that it was caused by "over-investment" or the creation of too much capital relative to a sustainable level of demand, in which crisis breaks out when demand, stimulated by excessive debt, declines. See if
you can find any coercive competition threads in the argument. I see them even when others don't.

**Kotz, David (2009).** “The Financial and Economic Crisis of 2008: A Systemic Crisis of Neoliberal Capitalism,” Review of Radical Political Economics, Volume 41, No. 3, Summer, 305-317. This is longer run view of the contradictions that led to the current global crisis as seen through the perspective of Social Structure of Accumulation theory. The emphasis is on real sector problems. Available at: http://rrp.sagepub.com/content/41/3/305.full.pdf+html.

**Crotty, James (2011).** “The Great Austerity War: What Caused the US Debt Crisis and Who Should Pay to Fix It.” At: http://www.peri.umass.edu/fileadmin/pdf/working_papers/working_papers_251-300/WP260_revised.pdf. This paper sees the current austerity drive as the culmination of right-wing efforts to destroy America’s weak version of social democracy that began in the 1930s and are on the verge of success today. It traces the history of, and discusses the causes of, rising US fiscal deficits since 1980. The Republican and Democratic Party approaches to solving the deficit problem are outlined and alternative progressive policies are put forth.


*Brenner, Robert (2009).** “What is good for Goldman Sachs is good for America: The origins of the current crisis.” This is the prologue to a Spanish edition of his much discussed 2006 book on the global neoliberal economy titled “The Economics of Global Turbulence.” It is to some extent a summary of the arguments in his book, but is useful here because it puts forth a forceful claim (all Robert’s claims are forceful) that the current financial crisis is rooted in deep structural problems in the real global economy that have existed for decades. Available at: http://www.sscnet.ucla.edu/issr/cstch/papers/BrennerCrisisTodayOctober2009.pdf

* Basu and Vasudevan, “Technology, Distribution and the Rate of Profit in the US Economy: Understanding the Current Crisis” (2011). At: http://people.umass.edu/dbasu/BasuVasudevanCrisis0811.pdf. This is an ambitious paper that discusses various Marxian theories of crisis, undertakes a wide ranging review of data on key variables in these theories, and draws conclusion from theory and data about the causes of the current crisis.

**Palma, Jose Gabriel (2009).** “The revenge of the market on the rentiers. Why neoliberal reports of the end of history turned out to be premature,” Cambridge Journal of

Perez, Carlotta (2009). “The double bubble at the turn of the century: technological roots and structural implications,” Cambridge Journal of Economics, Vol. 33, No. 4, pp. 779-805, July. Carlotta Perez is a well known writer on long-run technical change who is strongly influenced by Schumpeter. This essay is interesting in that it tries to integrate the internet boom at the end of the 1990s with the recent financial crisis.

Books on the Financial Crisis

Many, many general-audience books have been written recently about financial aspects of the crisis. These are just a few of them. You should sample a few chapters if you are interested in or want to write about the financial crisis.


*Michael Lewis (2010). The Big Short, W.W Norton. A marvelous book that explains in clear terms how Wall Street sharpies innovated their way into huge fortunes for bank rainmakers and crashed the global economy in the process. Lewis is a superb writer whose book Liar's Poker about the beginning of the investment bank carnage was a hilarious best seller.


