Claudio Sardoni (2011)
Unemployment, Recession and Effective Demand
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In this concise, well-written volume, Professor Sardoni sets out to 'provide a critical examination of the foundations of macroeconomics as developed in the tradition of Marx, Keynes and Kalecki' (ix). In this regard, the author succeeds quite admirably. Despite the rather profound divergences in methodological approaches among Marx, Keynes and Kalecki, Sardoni argues that there is a common lineage linking these authors in relation to their respective analyses of the problems of unemployment, investment and effective demand. Sardoni argues that Kalecki's contribution to the theory of effective demand is quite seminal and represents a possible 'bridge' between the Marxian and Keynesian traditions. Furthermore, he contends that Kalecki's theory also resolves some of the analytical problems which continue to plague both Marx and Keynes.

In Sardoni's view, Keynes's original hypothesis in *The General Theory* provides an analytical explanation of under-employment equilibrium in which the economy operates at an equilibrium level of output which does not necessarily correspond with full employment. Keynes argues that, contrary to 'classical' theory, there are no automatic mechanisms that will ensure that the economy tends toward full employment. In other words, the economy could experience long periods of excess productive capacity and under-employment. On the other hand, Marx's analytical framework provides a coherent explanation of recurrent capitalist crises but is unable to explain prolonged periods of under-employment equilibrium. Sardoni contends that both Marx and Keynes encounter considerable problems in their respective micro-foundations in explaining the continued existence of under-employment. These micro-foundations assume considerable market perturbations and a competitive market structure. Sardoni argues that, by abandoning the assumption of free competition and adopting a theory of imperfect competition based upon a 'profit mark-up' approach and the 'degree of monopoly', Kalecki provides a more coherent set of micro-foundations in analysing the macroeconomic problems of unemployment and effective demand. Consequently, the problem of market forms acquires a critical importance for how the macro-economy behaves in relation to the problem of effective demand:

> In the book, the problem of market forms receives considerable attention. This is not only because it is argued that abandoning the hypothesis helps to solve several of the problems encountered in Marx's and Keynes's analyses, but also because the approach to macroeconomics under the assumption of non-perfectly competitive markets is a distinct feature of the current mainstream (p. 2).

Sardoni's characterisation of the Marxian trade cycle appears to be informed by the view that Marx's original analysis was subsumed within the classical tradition of equilibrium dynamics. This interpretation, however, has been contested

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recently by Freeman and Carchedi (1996) who argue that Marx's analysis is essentially governed by non-equilibrium dynamics. Indeed, Marx's theory of the capitalist market has more in common with Schumpeter's concept of 'creative destruction'. Regardless of these controversies, Sardoni neglects to incorporate Marx's theory of a tendential falling profitability. It is precisely this *tendency* of a falling rate of profit, which forms the theoretical basis of the Marxian theory of crisis. Every growth cycle, or phase of capital accumulation, carries with it the *possibility* of crisis. In this context, the fall in the rate of profit will be determined by a rising capital/labour ratio in relation to a specific profit/wages ratio. In order to prevent a decline in the rate of surplus value, capital would need to either (a) increase the absolute rate of exploitation, or (b) increase investment in the means of production by improving labor productivity. If we assume a constant rate of surplus value, then a rise in the organic composition of capital induces a fall in the average rate of profit insofar as it is only the variable component of capital that yields surplus value, whereas profit is measured in terms of total capital. In the long run, a rise in the technical composition of capital inevitably reduces the value composition of capital.

In this general schema, competition is conceived as a coercive force that compels individual capitals to continuously invest as a survival strategy. The role of the reserve army of labour regulates the level of wages and therefore the level of effective demand. The market is essentially anarchic and does not ensure full employment. Indeed, the momentary state of full employment is merely accidental, while the normal tendency is toward dis-equilibrium and multiple equilibria. In this context, the trade cycle resembles the 'predator-prey' model developed by Goodwin (1982) in which there is no real distinction between trend and cycle. Despite these misgivings, Sardoni's critique of Marx is quite valid in relation to Marx's vision of a competitive capitalism, which resembles Keynes's view that firms will produce and invest at the highest possible rates. Unlike Marx, however, Keynes's theory is informed by Marshallian assumptions of short-term increasing marginal costs and the decreasing marginal efficiency of capital.

As soon as the assumptions of a competitive market economy are relaxed and imperfect competition is assumed to be the norm in which smaller firms co-exist with the dominant oligopolies, a more realistic theory of employment and investment can be formulated. Kalecki's theory of the 'degree of monopoly' based upon a mark-up pricing strategy (operating at constant short-term returns) constitutes this important theoretical breakthrough which, Sardoni contends, restores the micro-foundations of macroeconomic theory. As long as firms no longer produce to capacity and their investment is constrained by finance (law of increasing risk), Kalecki provides a coherent explanation of the existence of prolonged phases of under-employment as a result of insufficient effective demand.

Needless to say, this very brief summary of Sardoni's argument does not do justice to the intricate nuances and complexities that inform the theoretical discourse. Sardoni's book provides an excellent exposition of some of the central controversies that have informed Post-Keynesian macroeconomic debates over the problems of persistent under-employment. The analysis could have incor-

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porated a more detailed treatment of endogenous money and the Keynesian problem of uncertainty. Given the limited scope of the analysis, however, the book succeeds quite admirably as a work of theoretical synthesis. Indeed, this volume should be urgent and compelling reading for academics and policy-makers alike in resolving some of the worsening and endemic problems of unemployment, recession and effective demand, which now engulf most of the advanced capitalist countries. The great tragedy is that books in this heterodox tradition continue to be ignored by the prevailing neoclassical orthodoxy.

References

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