Raising Keynes: A Twenty-First-Century General Theory
By Stephen Marglin
Harvard University Press: Cambridge, MA, 2021. 928 pages, £79.95 (hardcover).

Raising Keynes is no regular book about the "Master" and Keynesian economics. It is Marglin's most recent (and the most successful in my view) attempt to provide a conceptual description of the dynamics of capitalist economies.

The main premises of the book are hardly new, at least for the heterodox camp: aggregate demand matters (in the short, medium and the long run), price and wage flexibility can be destabilizing, "we can't do it without money", unemployment is not due to the presence of sand in the wheels or imperfectly competitive markets, and so on. What is novel is the answer that Marglin provides to the question that Keynes' incomplete project never addressed in detail. Is there an equilibrium without full employment and flexible prices?

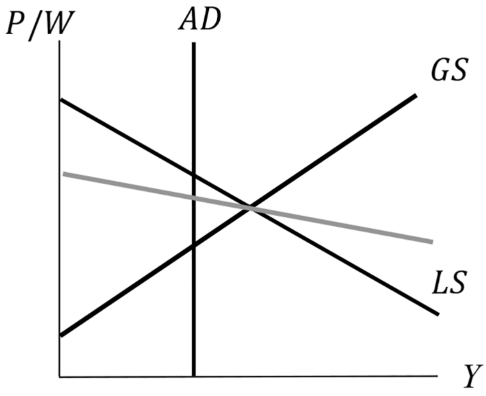
For the heterodox camp the answer is the full employment is not a stable position of a capitalist economy left at its own devices. But surprisingly, very few have provided a detailed model where there is an equilibrium with less than full employment when wages and prices are fully flexible. Marglin's book provides a coherent answer. The main argument of the book can be stated as follows: Keynes throws in an additional equation into the classical labor market, where supply and demand are supposed to define full employment as the unique equilibrium. This additional equation is aggregate demand. The system has now three equations: labor demand (which Marglin calls "goods supply" GS), labor supply LS and aggregate demand AD and two unknowns (the real wage and employment/output).

The AD, GS and LS curves become the loci of stationary price level, wages and output. The are many possible adjustment paths, and Marglin does a great job describing many of them. In all of them the order of adjustment changes, but. Most variants feature a constant price to wage rate, where both wages and prices are changing at the same speed. The key is that full employment is only reached by fluke.

Figure 2 shows an example in the price/wage ratio and output space: it is not the standard way to present the labor market, but it helps to rationalize Marglin's argument. The GS curve is upward sloping due to profit maximization and perfect competition. A higher price to wage ratio raises profits, thus firms find profitable to hire additional workers. The LS is downward sloping due to household's utility maximization and the often neglected assumptions that substitution effects dominate the income effects. A higher price to wage ratio implies a lower real wage, thus households are willing to supply less hours of work. The AD curve is drawn as a vertical line, but it may have other shapes if, for example, Keynes effect is operative; this does not change the main argument.

The grey line represents the locus of stationary price to wage ratios. Below (above) the LS curve and above (below) the GS curve, both prices and wages are falling (increasing); at some point both fall (increase) at the same speed. The stable equilibrium with price flexibility is located when the grey line (along which the real wage is constant) intersects the AD curve.

Figure 1



Source: author's own elaboration

There are only a few parts of the book that are slightly imprecise. For example, in chapter 2 it is suggested that Ricardo and Smith assumed that interest rates equalize savings and investment. Classical economists did not use the loanable fund approach. Instead, they assumed that all the desired savings are mechanically invested. The model is extended to the long-run. Here Marglin assumes an unlimited supply labor *á la* Lewis. But it has been claimed, most notably by Harrod (1933) that labor shortages may affect investment behavior and capital accumulation, a case not analyzed in the book.

The book deserves the best welcome possible. Economists that are closer to the mainstream will see the main premises of contemporary macro challenged and will profit from a well-crafted manuscript. Most readers familiar with Institutionalist, post-Keynesian and Marxist economics will probably find overall argument and the framework extremely persuasive and innovative.

Emiliano Libman
Universidad Nacional de San Martín

Reference

Harrod, Roy. 1933. "An Essay on Dynamic Theory," *The Economic Journal*, vol. 49 (193): 14-33.