1 – Introduction

Michal Kalecki has an uncommon status in the History of Economics. He has made original contributions on many crucial issues addressed by the profession and has been pointed within some circles as one of the most important economists of the twentieth century. Nevertheless, he is neglected (and even unknown) by the vast majority of his peers. According to Harcourt “Kalecki is the most neglected of all great modern economists” [quoted in Sawyer 1985, 1]. This fact becomes clear when one examines some mainstream textbooks on the history of economic thought. Many examples can be found; I will mention but a few:

(1) In Schumpeter’s *History of Economic Analysis* (1954), Kalecki is barely mentioned. In a passage about the Keynesian theory, Schumpeter states: “The most successful of all theoretical systems that have been inspired by this will to simplify the structure of economic theory is the static system that is associated with the name of the late Lord Keynes. Many others have also been constructed, for example, by Amoroso, Frisch, Kalecki, Pigou, Tinbergen, Vinci” [Schumpeter 1954, 1143-4]. Note, however, that Kalecki’s name does not even appear in the “Index of Authors” at the end of the book.

(2) Two other (randomly chosen) History of Economic Thought textbooks completely ignore Kalecki [Oser and Blanchfield, 1975; Ekelund Jr. and Hebert, 1990].

(3) Blaug [1990] mentions Kalecki just once, but not in relation to his main contributions in the macroeconomic field: “According to Kalecki’s much discussed ‘principle of increasing risk’, the subjective risk to the firm of increased indebtedness rises with …” [p.526]. It is remarkable that Kalecki receives no attention in the Keynesian System chapter, as well as in topics such as “effective demand” and “economic dynamics”. About the Keynesian Revolution, however, Blaug states that “it could be argued that the apotheosis of Keynes came even earlier in 1944, when the UK White Paper on Employment Policy, William Beveridge’s Full Employment in a Free Society, and The Economics of Full Employment: Six Studies in Applied Economics by the Oxford Institute of Statistics, followed one another within the space of nine months” [Blaug 1990, 643-4]. But note that the third publication has a strong component of Kalecki’s ideas, besides a chapter written by Kalecki himself (ch.2 – “Three ways to full employment”). Blaug seems not to pay attention to that.

(4) Perlman and McCann, Jr. (1998) mention Kalecki in a footnote with biographical information, in a section entitled “Joan Robinson and Cambridge Socialism.” Although Kalecki is described as a “brilliant Marxist writer” [Perlman and McCann 1998, 405], there is no discussion about his work. Only an extract could be found about it (in the same footnote): “[Kalecki] published an important pamphlet entitled Essays on Business Cycle Theory (The importance of this work lies in its….”

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statement of the theory of effective demand, which predates the theory as stated by Keynes in 1936)” [Perlman and McCann 1998, 405n].

(5) In Niehans (1990), one can find some quite superficial references to Kalecki, in which he is always cited along with R. Frisch. For example: “In the early 30’s, Ragnar Frisch and Michal Kalecki were the first to condense business cycle theory to mathematical models” [Niehans 1990, 314]. How? There is no explanation for that, since Niehans never presents formally some of Kalecki’s models. Kalecki is “introduced” inside a section devoted to R. Frisch, in a chapter called “The Planners.” Here, there is a one-paragraph description of Kalecki’s “Macrodynamik Theory of Business Cycles” (1935), although the formal model is not presented. On the other hand, note the following passage: “Kalecki later prided himself on having anticipated Keynes. In fact, he far exceeded Keynes not only in economic substance but also in analytical rigor and in lucidity of exposition” [Niehans 1990, 376]. Once more, there is no further discussion about such a strong assertion and no elements to persuade (or, at least, inform) the reader. How and why did Kalecki “far exceed” Keynes? And, if this is the case, why are Kalecki’s ideas not discussed in some detail? Those are some of the questions that will be discussed later.

The general impression that one gets by this short search on History of Economic Thought books is that Kalecki is not recognized at all by his contributions on important issues related to the dynamics of a capitalist economy. He is sometimes mentioned either as someone who writes about “planning” (what he actually did, specially in the 50’s) or as a mere “follower of Keynes,” because of the similarities between their works and because of Kalecki’s relation to Cambridge economists in the late 30’s, particularly Joan Robinson.6 But he is, most of the time, simply neglected or ignored in the mainstream literature.

What are the reasons for Kalecki being neglected? One possible explanation can be found in the approach to the history of thought used by Niehans (1990), who maintains that a piece of analysis should be considered as long as it contributes somehow to the edifice of present-day orthodox economics: “The essential criticism is thus performed not by the historiographer but by the history of economics itself. In a biological selection process the fitness of a species is judged not by the observing biologist but by its survival.” [Niehans 1990, 2] 5

Indeed, the fact that Kalecki’s work was in sharp contrast with neoclassical orthodoxy prevented it from being a “brick in the mainstream edifice.” It is worth noting this fact, especially when one thinks that Kalecki’s approach could in many respects be conformable to neoclassical economics: (a) Kalecki used formal models; (b) Kalecki did empirical work and used some econometrics. However, most of his assumptions did not fit the conventional reasoning. Sawyer (1985) points to the main aspects in which Kalecki contrasted to the orthodoxy of his time: (a) the rejection of a competitive view of the world, and the assumption that capitalist economies could be better characterized as semi-monopolistic or monopolistic (what leads him to a mark-up theory of price determination); (b) the absence of equilibrium analysis and the emphasis in the evolution of the economic system through time; (c) the fact that Kalecki “made virtually no use of those standard tools of neo-classical economics – the utility function and the production function” [Sawyer 1985, 10-11]; (d) the use of social classes, rather than individuals, as the basic unit of analysis.
Nevertheless, saying that Kalecki departed from the orthodoxy of his time is just a partial explanation, since other non-mainstream economists are usually considered, even in a critical perspective. One could argue that Kalecki is neglected simply because his work is really not important and deserves no further consideration. However, such an interpretation is not compatible to the admiration Kalecki receives out of mainstream circles and to the way he is referred to by authors who give him little importance – what is exemplified by the above quotations from Niehans (1990) and Perlman and McCann, Jr. (1998).

Other possible reasons are related to biographical aspects. Patinkin (1982) emphasizes that Kalecki came from Poland, that “was in the backwaters” [Patinkin 1982, 58], from the viewpoint of economic theory, and that Kalecki was himself “further isolated intellectually by virtue of his being largely an autodidact [in economics]” [Patinkin 1982, 58]. In addition, one needs to consider that Kalecki wrote a lot of his work in Polish and French and, therefore, many of his potential readers could not reach his work at first. Feiwel (1975) describes Kalecki as a “very modest man” [Feiwel 1975, 15] and stresses that he silenced for a long time about his priority in publication of elements of Keynes’s *General Theory*. Besides, Feiwel (1975) mentions some characteristics of Kalecki’s style: “Perhaps it was the very taciturnity of Kalecki’s mode of expression, the restraint in the language, and the utmost concentration of thought that made his writings so difficult to understand and rather unpopular among his fellow economists” [Feiwel 1975, 13]. Sawyer (1985) also focuses on Kalecki’s “terse and laconic” [Sawyer 1985, 8] writing style and states that “in further contrast to much writing in the field of economics, Kalecki made few references to the work of others, whether by way of justification for what he was saying or as object of criticism” [Sawyer 1985, 8]. In fact, Kalecki was not trained as an economist, and was not concerned with a dialogue with the economics orthodoxy (I will come back to this point later). Note that in all these aspects there is a sharp contrast between Keynes and Kalecki that can help to understand why the former received full attention during his lifetime and after, whereas the latter has been mostly neglected or forgotten (more on the relation between Keynes and Kalecki in section 3).

In this paper, I intend to reflect on Kalecki’s work and compare it to Keynes’s, in order to clarify on the lack of consideration Kalecki has always received in the mainstream of the profession. The remainder of the paper is organized as follows: In the next section, some of the main aspects of Kalecki’s theory of business cycle will be discussed. Section III addresses the relation between Kalecki’s and Keynes’s works. As a conclusion, I will draw some considerations about the relevance of Kalecki’s macroeconomics and his place in the History of Economic Thought.

2 – Kalecki on Theory

This section examines some of the most important theoretical contributions of Kalecki. It does not intend to be a full description and discussion of all the issues Kalecki addressed, but rather a brief outline that focuses on those aspects of Kalecki’s work that: (a) are related to the analysis of capitalist economies, specially in the “macroeconomic” sphere; and/or (b) are somehow related to questions also addressed by Keynes, so that
similarities and differences between them can be discussed (what will be done in the following section).7

The above selection criteria means that Kalecki’s contributions to the analysis of socialist and underdeveloped economies, as well as issues that could be loosely classified as “microeconomic,” like the mark-up theory of price determination, will not be discussed here, except to the extent that those contributions appear as an element in the analysis of the macrodynamics of capitalist economies.8

2.1 – Principle of Effective Demand

For a long time, economists have acknowledged the idea that national income is always equal to the national product and also equal to the total of expenditures (in consumption and investment, for example) in a given period. These are nothing but identities, relations that always hold; given the way those magnitudes are defined.

The usual way in which the XIX century political economy looked at those relations can be described by the so-called Say’s Law: “every supply creates its own demand”, i.e., the production of any good creates purchasing power that will be immediately used to demand another good. In aggregate terms, it means that all incomes (wages, profits etc.) are fully spent on the acquisition of goods and services. Note that, in this case, there is a causal mechanism, between aggregate production and expenditure, in which the former determines the latter.

Kalecki is quite critical of that perspective: “[Say’s] law has certain affinities with the laws of preservation of matter and energy. The difference, however, is that it is definitely wrong. It implies that the value of national income is constant. If, for instance, less is spent on consumption then pro tanto more is spent on investment. But it was always clear that this is not the case, since the value of national income is subject to abrupt changes. (…) To discard the law of the preservation of purchasing power meant admitting the possibility of general overproduction.” [Kalecki 1964, 62, cited by Feiwel 1975, 10-11] According to Kalecki, Say’s Law was endorsed for a long time among economists because of an inadequate application of household experience – where income is given and less consumption means greater savings – to the economy as a whole.

Kalecki asserts that the correct relation between aggregate income and expenditure rests on the so-called “principle of effective demand.” In a nutshell, it can be stated as: “aggregate expenditure determines aggregate supply.” 9 It means that expenditures can be considered as “independent variables” that lead to a given level of output, which in turn generate an amount of profits and wages (income) equivalent to what has been spent on consumption and investment.

Kalecki analyses the economy in terms of social classes (capitalists and workers) and defines different kinds of expenses for each class. Workers are assumed to earn wages (W) and spend all their income immediately (income W equals consumption Cw, with no savings). However, this is just a simplifying assumption that is not crucial to the argument. Capitalists are assumed to earn profits (P) and to spend on consumption (Cc) and investment (I). Kalecki emphasizes the role of capitalists’ expenses, since these are not necessarily related to previous income, i.e., not necessarily equal to the level of profits earned in the previous period. The qualitative difference between workers and
capitalists consists in the fact that workers’ expenses are restricted by their income, while capitalists’ are not. Therefore, workers’ expenses simply reflect changes in national income (given the income distribution) and are not subject to spontaneous changes. If this is the case and if the principle of effective demand holds, it follows that fluctuations in national income and product are caused by fluctuations in capitalists’ expenses on consumption and investment.10

This leads Kalecki to the well-known proposition that workers spend what they earn and capitalists earn what they spend. Consider, once more, the identity between national income (profits and wages) and aggregate expenditure (workers’ consumption, capitalists’ consumption and investment). Since workers’ consumption equals wages (W = Cw), it follows that the amount of profits is equivalent to capitalists’ expenses on consumption and investment (P = Cc + I). According to the principle of the effective demand, causality would run from expenses to income (thus, in this case, from Cc and I to P). Kalecki’s point is that capitalists cannot individually decide how much to earn, but they can decide how much to spend. Therefore capitalists, as a whole, determine by their spending decisions aggregate profits and – given the income distribution – national income and product.

However, it is worthy to note that changes in the distribution of income can also change the level of national product. Since distribution affects the composition of the total income (P + W), it also affects – due to different propensities to consume out of wages and profits – total expenditure. These influences, as well as the determinants of income distribution, will be discussed later in this section.

Another implication of the previous analysis is the possibility of involuntary unemployment and excess productive capacity in the economy, due to an insufficient level of effective demand. Note that this can never be the case if Say’s Law holds, since production implies demand and can only be limited by the amount of productive resources.

The fact that expenses in consumption and investment are the main determinants of national income is a crucial element in Kalecki’s theory of the business cycle. In particular, Kalecki assumes that consumption tends to present certain stability (due to habits, for example), and thus investment is the most important variable in the dynamic of the cycle. This is what will be discussed next.

2.2 – Investment and the Business Cycle

Kalecki’s theory of business cycle has been presented in slightly different forms along his works. This paper does not intend to discuss the differences among the three versions (dating from 1933, 1943 and 1968) and will focus on Kalecki’s first version, from “An Outline of the Business Cycle Theory” (1933), originally published in Polish, and first published in English in 1935 [Econometrica, vol. 3].11

As mentioned before, Kalecki considered investment as the main determinant of the cycle because of its independence from previous periods’ income and its greater variability when compared to other components of aggregate expenditure. Kalecki addressed two basic questions to analyze the cycle: (a) what determines investment; and (b) what influences investment exerts upon profits and national income. In particular, Kalecki was able to build a model in which cycles were endogenously generated by the
mutual interaction of the positive effect of higher income on investment and the negative influence of a greater capital stock on the decision to invest.

Kalecki's basic model considers a closed economy, with no population growth and no technical change. In order to focus on the cyclical component of the system, Kalecki assumes the absence of a secular trend in the economy. In addition, it is assumed that workers do not save and that aggregate inventories remain constant throughout the cycle. In this model, gross real profits (P) are given by the sum of capitalists' consumption (Cc) and gross accumulation (A) – "equal to the sum of the production of investment goods" [Kalecki 1933, 69]:

\[ P = Cc + A \]  \hspace{1cm} (1)

Assuming that capitalists' consumption is relatively inelastic and consists of an autonomous part (Bo) and a part that depends on gross profits:

\[ Cc = Bo + \lambda P \]  \hspace{1cm} (2)

where \( \lambda > 0 \).

From (1) and (2), we get:

\[ P = (Bo + A) / (1 - \lambda) \]  \hspace{1cm} (3)

Once more, capitalists' income (gross real profits) depends on the production of investment goods and on the autonomous component of their consumption expenses. On the other hand, Kalecki states that the decision to invest is motivated by anticipated gross profitability, which may be estimated from the actual gross profitability of existing plants - defined as the ratio between aggregate real gross profits and the existing capital stock (\( P/K \)). The interest rate \( i \) is also included as an explanatory variable in the investment function, although Kalecki considers that "the interest rate is of secondary importance for the will to invest, the factor of prime importance being unquestionably the gross profitability of existing plants." [Kalecki 1933, 97-8] Thus, Kalecki arrives at the relation:

\[ I/K = f(P/K, i) \]  \hspace{1cm} (4)

where \( I \) stands for investment, and \( f \) is an increasing function of \( P/K \) and a decreasing function of \( i \). Substituting (3) into (4), we get:

\[ I/K = f\left(\frac{Bo + A}{K}, i\right) \]  \hspace{1cm} (5)

At this point, another simplifying assumption is made: the rate of interest \( i \) is considered an increasing function of the gross profitability \( P/K \). Kalecki argues that the interest rate rises in the upswing - due to an increased demand for money in circulation - and falls in the downswing (note that \( P/K \) is also procyclical). According to Kalecki, the positive relation between the interest rate and gross profitability is only a crude approximation, that may be maintained only so long as "(i) \( i \) is the 'market' rate, i.e., we
leave aside interventions of the central bank; and (ii) there is no crisis of confidence when, during the depression, the rate of interest raises." [Kalecki 1933, 74]

Then, it follows from (5):

\[ \frac{I}{K} = g \left( \frac{B_0 + A}{K} \right) \] (6)

If we assume \( g \) to be linear, equation (6) can be written as:

\[ \frac{I}{K} = m \left( \frac{B_0 + A}{K} \right) - n \] (7)

where the constant \( m \) must be positive since \( g \) is an increasing function. In addition, the parameter \( n \) is also assumed to be positive (actually, this is a necessary formal condition for the investment equation to describe a cyclical pattern). Multiplying both sides by \( K \), we finally get Kalecki’s investment equation:

\[ I = m (B_0 + A) - nK \] (8)

which shows that the volume of investment orders is an increasing function of the gross accumulation \( A \) and a decreasing function of the capital stock \( K \). Equation (8) makes it possible for Kalecki to state a mixed difference and differential equation for \( I \) as a function of time. The solution to this equation shows that \( I \) exhibits harmonic oscillations with a constant, increasing or decreasing amplitude. The coefficients \( m \) and \( n \), as well as the length of the gestation period of investments, determine the period of oscillation, and the rate of progression and regression of the cycle amplitude.  

As stated before, the basic mechanism of the business cycle in Kalecki’s model lies in the interaction between investment, profits and capital accumulation. When investment orders increase, the production of investment goods also increases (effective demand) stimulating further investment orders. However, as long as gross accumulation \( (A) \) exceeds the level of replacement requirements, it leads to an increase in the capital stock \( (K) \), that has a negative effect on gross profitability and, therefore, on investment demand. Initially, this effect restrains the rate of increase in investment orders, and at a later stage promotes a decline in investment orders, starting the declining phase of the cycle.

Summing up: the cycle in Kalecki's model is caused by the dual role performed by investment in a capitalist economy, where it represents - at the same time - expansion of aggregate demand and creation of productive capacity. According to Kalecki, "We see that the question, 'What causes periodic crises?' could be answered shortly: the fact that investment is not only produced but also producing. Investment considered as expenditure is the source of prosperity, and every increase of it improves business and stimulates a further rise in investment. But at the same time every investment is an addition to the capital equipment, and right from birth it competes with the older generation of this equipment. The tragedy of investment is that it causes crises because it is useful" [Kalecki 1939, 318].
2.3 - Distribution and income determination

As we have mentioned before, the distribution of national income is an integral element in Kalecki’s theory of income determination. The starting points are the principle of effective demand and the idea that capitalists and workers have different propensities to consume – workers’ is close to 1, capitalists’ is smaller than that. As aggregate income is determined by aggregate expenditure, and the latter depends on workers’ expenses out of wages and capitalists’ expenses out of profits, the distribution of national income affects the level of aggregate output.

Kalecki discusses these questions in different papers and books. We will focus on his *Theory of Economic Dynamics* (1954), in which Kalecki addresses the problem of income determination in three steps: (a) what determines the shares of wages and profits in national income; (b) what the relation between investment and profits is; and (c) what the relation between investment and consumption expenses and output is.

The distribution of income is governed by the so-called ‘degree of monopoly’, a parameter which depends on the structure of the industry, the intensity of price competition and product differentiation, the power of labor unions, among other factors. According to Kalecki, the ‘degree of monopoly’ is closely tied to relation between unit prime costs \((u)\) and prices \((p)\): the higher the ‘degree of monopoly’ the larger the gap between unit prime costs and prices tends to be. Therefore, the higher the profits’ share in national income tends to be.

On the other hand, Kalecki [1954, 225] shows that the relative share of wages in the value added of an industry \((w)\) can be represented as:

\[
w = \frac{1}{[1 + (k - 1)(j + 1)]} \tag{9}
\]

where \(k\) reflects the degree of monopoly and \(j\) is the ratio of the aggregate cost of materials to the wage bill.

For the economy as a whole, the wage share depends also on the relative importance of particular industries on the composition of aggregate output. Thus, the portion of wages in national income is determined by the degree of monopoly, the ratio of raw material prices to unit wage costs and the industrial composition of value added. Note that “a rise in the degree of monopoly (…) causes a fall of the relative share of wages in the value added.” [Kalecki 1954, 226]

Kalecki also establishes a relation between the real wage and salary bill \((V)\) and real gross income \((Y)\):

\[
V = a.Y + b \tag{10}
\]

Or, dividing both sides by \(Y\):

\[
\frac{V}{Y} = a + \frac{b}{Y} \tag{11}
\]
where $b$ is a positive constant subject to long run fluctuations, and $a (< 1)$ is a distributional parameter which denotes the part of the relative share of wages and salaries in $Y$ that does not depend on the level of $Y$.

The second step in the theory of income determination is the analysis of the relation between investment and profits. It is assumed, for simplicity, that the economy is closed and that both government expenditure and taxation are negligible. As we have seen before, the decision to invest is motivated by anticipated profitability but, at the same time, profits are determined by capitalists’ expenses, including investment. Kalecki [1954, 248] summarizes the effect of investment on profits as:

$$P_t = (I_{t-s} + B_0)/(1-q)$$  \hspace{1cm} (12)

where $B_0$ is a constant that represents the autonomous part of capitalists’ consumption, $q$ is the marginal propensity to consume out of profits, and $s$ is the time-lag between investment expenses and profits.

Finally, the question of how aggregate income is determined can be addressed. Defining aggregate profits as the difference between total income and the wages and salaries bill, and substituting in equation (11), we get:

$$\frac{(Y - P)}{Y} = a + \frac{b}{Y}$$

or

$$Y = (P + b)/(1-a)$$  \hspace{1cm} (13)

Combining equations (12) and (13), the national income, in time $t$, is determined by investment expenses and structural parameters:

$$Y_t = \frac{I_{t-s} + B_0 + b_s(1-q)}{(1-q)(1-a)}$$  \hspace{1cm} (14)

Thus, under simplifying assumptions, national income is determined by investment with a time-lag. Note also that variations in national income are caused by fluctuations in investment expenses, just like in the Keynesian multiplier:

$$\Delta Y_t = \frac{\Delta I_{t-s}}{(1-q)(1-a)}$$  \hspace{1cm} (15)

To summarize: in Kalecki’s theory, capitalists’ consumption and investment expenditures govern the amount of aggregate profits. The distributional factors, in turn, determine labor’s income. In particular, the share of wages in national income is the inverse of the degree of monopoly. Therefore, aggregate consumption and employment are shaped by autonomous expenses of profit earners jointly with workers’ consumption, which depends on the determinants of distribution.
3 – Is Kalecki a Keynesian?

This section discusses the relationship between the works of Kalecki and Keynes. In particular, I intend to argue that to consider Kalecki as a disciple of Keynes involves a misunderstanding of Kalecki’s theoretical contributions, as well as his intellectual background and some methodological aspects of his work. In other words, there are many reasons to answer with a negative to the question that entitles this section, and more than that, there are reasons to doubt even the way in which the question is posed. I shall argue that Kalecki’s work comes from another tradition in economics, that it is superior to Keynes’s in many respects and that it has, despite some similitude, many particular aspects that prevent us from bracketing their ideas together.

The point here is not to deny the historical importance of Keynes. As Kalecki himself recognized [Feiwel 1989], Keynes’s international reputation and ability to place his concerns on the center of the stage probably played a significant role in the dissemination and recognition of the Keynesian Revolution. Besides that, the fact that Keynes’s work was somehow closer to the orthodoxy created less resistance to his ideas and allowed him to raise a debate and receive lots of attention, contrarily to Kalecki. Be it as it may, the aim is to acknowledge that Kalecki deserves another place in the History of Economics, not as a follower of Keynes, but as an intellectual who made, by himself, original and fruitful contributions to the field.

3.1 – Kalecki and Keynes: similarities and differences

Kalecki and Keynes came from different intellectual traditions. Keynes received his economic training in Cambridge, under the influence of Marshall, while Kalecki never had formal training in economics. Having obtained a degree in engineering, he was self-educated in economics, influenced by the works of Marx, Rosa Luxemburg and Tugan-Baranovski. Not only was Kalecki’s background in economics was quite different not from that of Keynes, but also from that of most American and British economists of the time. This fact in part explains the originality of Kalecki’s work, not restricted to the “habitual modes of thought”, but at the same time helps to explain the disregard his work received.

According to Sawyer (1985), Kalecki should be seen as working within the classical or Ricardian-Marxian approach, whereas Keynes can be seen within the neo-classical tradition (Marshallian, in particular), although he became critical of some aspects of that approach. If this is the case, one can expect to find a great amount of differences between their works. Therefore, it might be better not to include Kalecki’s and Keynes’s works in the same chapter of the history of economic thought. Or, as Sawyer states it: “if that line of argument is accepted and the idea that classical and neo-classical traditions reflect the two basic and opposed schools of thought within economics (...), then placing Kalecki and Keynes together is likely to lead to confusion” [Sawyer 1985, 185].

One more element should be considered about their different backgrounds: the fact that Kalecki's contacts with problems of business cycles came basically through statistical and descriptive work analyzing commodity markets, first as an economic journalist and then as an employee at the Research Institute of Business Cycles and Prices.
(in Warsaw). Keynes, on the other hand, had a much stronger academic background and might perhaps be said to be closer to the analysis of money and financial markets.

Despite their differences, Kalecki and Keynes share some important conclusions in their works. It is clear that they have reached similar points through independent ways, since they did not know each other works and they have not met before 1936. Actually, Kalecki was surprised when he first read Keynes’s *General Theory*, and considered that most of the elements of a book he had in mind were already there, stated independently by Keynes.\(^ {14} \)

The most important points where Kalecki and Keynes get close to each other are: (i) the principle of effective demand; (ii) the importance of investment as the variable that guides the economic system; and (iii) the possibility of persistent involuntary unemployment. The first one was discussed before and is basically related to the refutation of Say’s Law. Kalecki and Keynes, through different routes, devised the reversion of the causal mechanism between aggregate demand and supply. Actually, as Kalecki was not trained in orthodox economics, he did not have to struggle to get rid of Say’s Law. Keynes, on the other hand, discussed the difficulties in dismissing Say’s Law; as is well known, he recognized in the *General Theory* that "the difficulty lays, not in the new ideas, but in escaping from the old ones" [Keynes 1964, viii].

The second element of convergence concerns the role of investment in the economic system. Although there are particular aspects in which Kalecki’s and Keynes's theories of investment differ from each other, an important common feature is the idea that the decision to invest is the crucial element that governs the path of the economy. Both Kalecki and Keynes acknowledged that consumption presents a greater stability and that investment is subject to sudden and abrupt changes, which explain economic fluctuations. Besides this, when the equality between investment and savings is concerned, both recognized that the causational mechanism would run from the former to the latter - what is also a consequence of the principle of effective demand. In other words, independent changes in the investment expenses would generate an equivalent level of savings, through changes in output and income.

Finally, Kalecki and Keynes share the recognition that full employment is not the normal state of affairs in the capitalist economy, and thus should not be a necessary theoretical result. Keynes considered full employment as a limit position in the economic system, as likely as any other equilibrium position, and one that could be achieved only if the effective demand generated by investment expenses, along with the propensity to consume, would be equal to the output in which there was no involuntary unemployment. Kalecki, on the other hand, did not analyze this question in terms of equilibrium values, but rather asserted that the economy is subject to cycles and that the fluctuation in the level of employment is a basic characteristic of the system that prevents full employment to occur in most of the times.

There are many points, however, in which Kalecki and Keynes diverge. I will argue that the differences in background provide good explanation for this fact and help to understand some of the basic characteristics of their work. In other words, Kalecki’s background in Marxian economics, his professional experience and his engineering degree are essential to understand his work in economics. The same could be said about Keynes: his Marshallian background, his professional experience, and his personal interests seemed to shape his work.
The first noticeable difference in their theories consists on the underlying structure of the economy. In Kalecki, elements of oligopolistic and monopolistic behavior are introduced, while in Keynes perfect competition is assumed. This leads to different perspectives on price formation: mark-up over unit prime costs (Kalecki) vs. marginal cost analysis (Keynes).

The second element to be stressed is the basic unit of analysis. Social classes play an important role in Kalecki’s theory, while Keynes starting points are individual firms or households. The emphasis on social classes also brings Kalecki to discuss the functional income distribution and to incorporate this variable as an essential component of his model. Keynes does not consider that and deals with aggregate variables only.

Another important difference stands on the fact that Keynes works on a static equilibrium context. He focuses on the equilibrium levels of investment, savings, income, and employment. Kalecki, on his turn, presents dynamic models that analyze the performance of the economy through time, and that stress the cyclical behavior of the relevant variables, rather than their equilibrium levels at a point in time.

The above difference also reflects on Kalecki’s and Keynes’s theories of investment. Keynes works basically in the Marshallian short-run, in which capital stock is constant, and the decision to invest relies on the so-called marginal efficiency of capital, compared to the interest rate\(^1\). In Kalecki, the stock of capital evolves along the business cycle and represents an important influence on the decision to invest (together with anticipated profitability of capital goods).

Kalecki’s and Keynes’s investment theories also highlight another distinction: the relative importance of ‘subjective’ and ‘objective’ elements. The former counts more in Keynes’s theory, while the latter are more important in Kalecki’s. “In particular, the technology of production and investment plays a prominent part in Kalecki’s models, whereas Keynes relies on many psychological observations on consumption, investment, and liquidity behavior that are absent in Kalecki’s exposition” [Johansen 1968, 160]. Note that Keynes placed emphasis on expectations and the impact of uncertainty on economic processes and explicitly admitted that some of the most important elements of the General Theory are the “three fundamental psychological factors” (propensity to consume, liquidity preference, and expectations of future returns from capital goods).

Finally, there are important differences concerning the use of mathematics and econometrics. According to Johansen, “Kalecki was unabashingly mathematical and used some rudiments of econometrics, while Keynes hesitated in using simple formulas and was very skeptical towards econometrics” [Johansen 1978, 161]. It is worth noting that Kalecki is somehow recognized by the pioneering of the mathematical methods used in some of his models (e.g. Niehans quotation in section I) and has made extensive use of empirical analysis. Keynes, on his turn, was not much devoted to empirical studies and did not consider econometrics to be a valid method of research, especially because of the instability resultant from the incidence of subjective factors (values, motives, expectations, and uncertainties) in economics. His positions regarding those questions are made clear, when Keynes states “the main prima facie objection to the application of the method of multiple correlation to complex economic problems lies in the apparent lack of any adequate degree of uniformity in the environment.” [Keynes 1973, 316]; or “How far are the results mechanically and uniquely obtainable from the data, and how far do they depend on the way the cook chooses to go to work?” [Keynes 1973, 288]
4 – Conclusion: Is Kalecki relevant anyway?

This paper addresses the place of Michal Kalecki in the History of Economics and discusses some aspects of his work on the theory of business cycles, particularly in comparison to Keynes’s theory.

One of the general conclusions that can be outlined is that Kalecki’s work does not receive serious attention inside the mainstream of the profession, despite the eulogies he gets when his works are mentioned and despite some similarities between the quantitative instrumental used by Kalecki and the mainstream of his time. Some reasons for this inconsideration have been advanced in the text, and I would like to reinforce one of them, quoting Sawyer: “The failure to consider Kalecki’s work seriously is symptomatic of the dominance of neo-classical economic theory in the teaching of economics, and the manner in which alternatives to neoclassical economics are excluded from serious consideration” [Sawyer 1985, 2].

On the other hand, when Keynes and Kalecki are compared, it seems that the latter cannot be considered a follower of the former. Indeed, their theories present important and irreconcilable differences, despite some elements in common. Some of those differences have been discussed, and the fact that Keynes was closer to the orthodoxy (due to his Marshallian background) provides a good explanation for his greater acceptance within the mainstream. Actually, “Keynesian macroeconomics” was one of the elements of the post-WWII orthodoxy in America, together with mathematical modeling in microeconomics, and econometrics as a crucial empirical tool. In this case, one could (ironically) argue that Kalecki “met all the requirements”: he used math, he used econometrics, and he was a “Keynesian”. The problems that prevented Kalecki from being considered may be: his math and his econometrics are used under assumptions that “do not make sense”, and Kalecki is “too Keynesian”, not conformable to the Neoclassical Synthesis.

However, I think Kalecki’s approach provides a sound and coherent foundation for the macroanalysis of capitalist economies, based in more realistic and relevant assumptions. Besides, it does not require the utilization of (always questionable) equilibrium concepts, it avoids some of the criticism directed towards Keynes’s theory (e.g. “it is too psychological!”), and it may be quite useful as a general guide to macroeconomic policy. But, of course, to accept Kalecki inside the Pantheon of the orthodoxy would involve a sharp change in the way economics is done and taught, so one cannot expect but to see him as an “outsider.”

Notes

1. The Cambridge Journal of Economics is a good example. From its foundation (in 1977) until 1994, it stated in its instructions to contributors that “the economic approach rooted in the traditions of Marx, Kalecki and Keynes has much to contribute to the understanding and treatment of current economic and social issues”. In 1995, the text has been modified, but Kalecki is still pointed out as an important influence: “The Cambridge Journal of Economics, founded in the tradition of Marx, Keynes, Kalecki, Joan Robinson and Kaldor, provides a focus for theoretical, applied, interdisciplinary and methodological work…”
2. Kalecki worked in the Oxford Institute of Statistics between 1940 and 1944, along with other well-known economists, like J. Steindl. During this period, Kalecki published many articles in the Bulletin of the Oxford Institute of Statistics, starting in June 1940 with “A Scheme for the Curtailment of Consumption,” and ending in December 1944 with “Employment in the United Kingdom during and after the transition period.” His bulletin articles, in themes such as employment, inflation, distribution of income, money supply and budgetary policy, usually presented the combination of detailed empirical work within a broad theoretical perspective. The book published in 1944, which Blaug refers to, is somehow a joint-product of the economists of the Institute, although each chapter is signed by a specific author: “The book is the product of close teamwork and intensive discussion among all the contributors” [Oxford University Institute of Statistics, 1944, vi].

3. According to Osiatynski [1990, 4], the Essays on the Theory of Economic Fluctuations (1939) – in which Kalecki tried to fill in some gaps in Keynes’s analysis, as well as to integrate it to his own theory of business cycles – provided the basis for this interpretation


5. Such an approach could be criticized in many respects. See, for example, Yonay [1998]. But this task is not going to be performed here, although it does not mean agreement with Niehans’s perspective. I simply recognize that this approach is frequently used, and consider this fact as an explanatory element.

6. The quotation marks are used here because Kalecki’s theory, contrarily to Keynes’s, cannot be strictly classified as microeconomic or macroeconomic. Actually, one of the strengths of Kalecki’s analysis of the business cycle is the interaction between micro and macro aspects.


8. An example of that is the concept of “degree of monopoly”, which is important in the determination of the income distribution and, as a consequence, influences the level of national income or output.

9. The principle of effective demand is clearly stated by Keynes in the General Theory [1964, ch.3]. According to Patinkin (1982), the theory of effective demand as an explanation of a state of ‘underemployment equilibrium’ in a capitalist economy constitutes Keynes’s central message.

10. This explanation considers a private closed economy. The same logic can be applied to an open economy, in which net exports are included among the components of expenditure, as well as an economy in which there is government (government expenses are also considered independent of previous income and this idea is used by Kalecki to argue for fiscal policy as a tool to stimulate the economy).

11. Note that this is the only of Kalecki’s papers cited by Niehans (1990). For a presentation of the different versions of Kalecki’s theory of business cycle, see Steindl (1981).
12. See Kalecki [1933, section 2] for details.

13. Keynes and Kalecki were completely different in their personal backgrounds, in their style, etc. According to Feiwel [1975, 47]: “[Keynes and Kalecki] came from two radically diverse social, cultural, and economic strata. They differed in almost as many aspects as can distinguish men: background, social position, education, experience, political outlook, and not the least in predisposition and temperament.” This section will not discuss biographical aspects in detail, though. For a brief comparison between their personal background and attitude, see Feiwel [1975, ch.2].

14. In a review of the *General Theory*, Kalecki states that it is “without any doubt, a turning-point in the history of economics.” [Kalecki 1936, 223]

15. This is one of the points criticized by Kalecki in his review of the *General Theory* [Kalecki 1936]. An important feature of this criticism is that the marginal efficiency of capital depends on the aggregate demand, which in turn depends on investment expenditure. This leads to a cumulative aspect of investment that is not discussed at all by Keynes.

**References**


Gilberto de Assis Libanio

Brace, 1964.


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