

## Preface

This book provides an introduction to advanced macrodynamics, viewed as a disequilibrium theory of fluctuating growth. It builds on an earlier attempt to reformulate the foundations of macroeconomics<sup>1</sup> from the perspective of real markets disequilibrium and the conflict over income distribution between capital and labor. It does so, not because it wants to support the view that this class conflict is inevitable, but with the perspective that an understanding of this conflict may help to formulate socio-economic principles and policies that can help to overcome class conflict at least in its cruder forms or that can even lead to rationally understandable procedures and rules that turn this conflict into a consensus-driven interaction<sup>2</sup> between capitalists or their representatives and the employable workforce.<sup>3</sup>

The book starts from established theories of temporary equilibrium positions, the forces of real growth, and the conflict over income distribution, represented by basic modeling approaches, which it considers in detail in its Part I in order to prepare the ground for their integration in Part II of the book. In this way we inspect what types of models of disequilibrium, income distribution, and real growth we have at our disposal, as models that have proved to be of real interest and sound from a rigorous modeling perspective. We stress in this regard that the book concentrates on non-market-clearing approaches, does not assume that only microfounded models make sense with regard to an understanding of the real world, and – above all – does not

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<sup>1</sup> P. Flaschel (1993). *Macrodynamics. Income Distribution, Effective Demand and Cyclical Growth*. Frankfurt, M. Peter Lang. This book was the starting point for a very fruitful collaboration with Carl Chiarella from the University of Technology, Sydney, in particular, involving many visits and joint projects in Sydney as well as in Bielefeld, see in particular, Chap. 1 and the references quoted there. The matured Keynesian AD-AS model presented in Chaps. 8 and 9 are an important example of the outcome of this collaboration.

<sup>2</sup> With respect to the occurrence and discussion of such consensus situations see P. Flaschel, R. Franke, and W. Semmler: Kaleckian investment and employment cycles in postwar industrialized economies. In P. Flaschel and M. Landesmann (Eds.): *Mathematical Economics and the Dynamics of Capitalism*. London: Routledge, 2008.

<sup>3</sup> We here consider only the social structure of such societies in highly stylized form and thus abstract from the fact that any adult person can in principle be an employer, be employed or even be self-employed at one and the same time.

rely on the jump-variable technique of the rational expectations school, which turns saddle point instability into always convergent dynamics by assumption.<sup>4</sup>

In Chap. 5 we provide in this respect a first example how these models can help to understand current economic controversies, for example, about inflation, and how to bring about disinflation. It shows that a Marxian reinterpretation of the baseline Monetarist model of inflation, stagflation, and disinflation may be more to the point from a factual viewpoint than Friedman's initial and later attempts to explain these phenomena against the background of a Walrasian understanding of the working of the economy. Reinterpreting the monetarist baseline model in this way may indeed remove unnecessary detours in the understanding of the occurrence of stagflation phenomena and thus provide arguments that both parties who are interacting in this framework, firms (responsible for price inflation) and workers (at least partially responsible for wage inflation), can use in the arguments exchanged with each other. Coherent and rigorous models and their factual explanations, stating the variables they seek to explain and the equilibrium conditions and laws of motion used for this purpose in a systematic way, are an important tool, quite independent from the current belief that only models that are microfounded (within the representative agent framework) are acceptable as tools of analysis.<sup>5</sup>

In Part II, we proceed to integrated models of effective demand, income distribution dynamics, and monetary growth. We show there that the textbook neoclassical model of AD-AS growth (based on the old neoclassical synthesis) is logically inconsistent, basically since it marries Keynesian and Walrasian concepts in a contradictory way. The neoclassical synthesis of Patinkin et al., extended and reformulated as a general AS-AD model of business fluctuations and economic growth, is therefore no solid basis for a Keynesian theory of the macroeconomic working of capitalist economies, basically since there is a logical contradiction between its Keynesian theory of effective demand and the Neoclassical postulate that assumes that prices are equal to marginal wage costs (due to perfect competition). Part II therefore ends with a negative conclusion concerning an integration of the baseline models discussed in Part I.

In Part III, starting with Chap. 8 and concluding this discussion, also from the empirical point of view, in Chap. 9, we then provide a solution to these inconsistencies by assuming that gradual adjustment processes do not only characterize wage level formation, but also price level formation and also quantity adjustment processes. In this way we show that a matured and coherently formulated disequilibrium AD-AS monetary growth model can be obtained from the old neoclassical synthesis, which can serve as a baseline model of the interaction of the trade cycle with the distributive cycle in a growing monetary economy. This model type is – from a formal perspective, as we show – very similar to the now fashionable New Keynesian model of the business cycle (the new neoclassical synthesis), but differs radically from it in its implications and the explanation of the occurrence of cyclical growth.

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<sup>4</sup> This technique is investigated and criticized in detail in Chap. 7 of the book.

<sup>5</sup> We know from Walrasian theory that nearly everything can be microfounded from first principles if a sufficient degree of heterogeneity among the interacting economic agents is assumed.

Our matured AD-AS monetary growth model has interesting dynamic implications and stability features (intuitively understandable from the feedback mechanisms that characterize the model's dynamics), can be applied successfully to the observed macrobehavior of actual economies and also gives rise to interesting simulation studies. It reveals in this respect that a proper synthesis of the Marxian distributive cycle with the Keynesian theory of the business cycle leads to a model of the interaction of "short-phased" Keynesian business fluctuations with long-phased fluctuations in inflation and income distribution that can explain factual observations, but that also needs further thorough investigation to really determine its potential as a theory of the short-, the medium-, and the long-run evolution of capitalism. The integration with Schumpeterian microprocesses of creative destruction, and the long-wave theories that are associated with this view of the working of capitalist economies, is also of high desirability here, but must be left for future research in this book.

In Chap. 10, we focus instead on another aspect of Schumpeter's research, his seminal work on "Capitalism, Socialism and Democracy"<sup>6</sup> and use its theory of a competitively organized (Western) socialism as starting point and foundation for a modeling attempt of the current politico-economic discussion of a new concept for the working of capitalism, the debate on so-called flexicurity systems and the combination of economic flexibility and social security they intend to establish. This approach provides an alternative model for our understanding of modern capitalist economies compared to the Chaps. 8 and 9 where we considered the actual working of orthodox types of capitalist economies.

In closing, I thank Toichiro Asada, Carl Chiarella, Ekkehardt Ernst, Reiner Franke, Christian Proaño, and Willi Semmler for suggestions and discussions that helped to improve the contents of this book. I also have to thank them, as co-authors, for allowing me to use joint work with some of them in Part III of this book. Indirectly, the book also owes much to my former colleagues Michael Ambrosi, Jörg Glombowski, Klaus Jaeger, Michael Krüger, and Elmar Wolfstetter during my time at the Free University of Berlin and to Gangolf Groh during the time he was at Bielefeld University. I also thank Christian Proaño for polishing the outlook of this book in an excellent way. The views expressed in this book are, of course, nevertheless entirely my own as are all remaining errors and mistaken views of this attempt to reformulate the foundations of macrodynamics from a Keynes–Marx–Schumpeter understanding of the interaction of effective demand with the distributive cycle and the social structure of accumulation.<sup>7</sup>

Bielefeld,  
August 16, 2008

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<sup>6</sup> New York: Harper & Row, 1942.

<sup>7</sup> See in this respect also the work of L. Taylor (2004): *Reconstructing Macroeconomics. Structuralist Proposals and Critique of the Mainstream*. (Cambridge, MA: Harvard University Press) for a contribution that in my view is similar in intention and spirit to the approach chosen in this book.

The Macrodynamics of Capitalism  
Elements for a Synthesis of Marx, Keynes and  
Schumpeter

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2009, XIV, 399 p., Hardcover

ISBN: 978-3-540-87931-2