Michał Kalecki: A Pioneer of Modern Macroeconomics

Born in Łódź on 22 June 1909, Kalecki grew up in a Jewish family. In 1913, he witnessed the bankruptcy of his father’s spinning mill and, in 1922, of his uncle’s large shipping company where his father had worked after losing his own business. Kalecki had to discontinue his studies at Gdański Technical University and return to Łódź to support his father financially.

Self-taught in economics, in 1927 he moved to Warsaw where he earned his living partly by regularly publishing business reviews in Polish economic periodicals. In 1929, he got a permanent job at the Institute for the Study of Business Cycles and Prices in Warsaw. In 1933 the Institute published his Essay on the Business Cycle Theory in which he not only laid the theoretical foundations for the cyclical nature of capital accumulation, but also — together with his other papers — set the course of what was later recognized as his original version of the theory of effective demand.

In late 1935, he got a Rockefeller fellowship and shortly after publication of Keynes’s General Theory of Employment, Interest and Money he moved to London, where he met Keynes, Joan Robinson and other members of Keynes’s inner circle.

In 1939, Kalecki published Essays in the Theory of Economic Fluctuations, in which he combined his business cycle theory with long-run growth. During the Second World War Kalecki worked at the Oxford University Institute of Statistics, which gave shelter to many economists who had escaped fascism in their native European countries. He soon became the Institute’s guru in its research and publications on the British war economy and on ways to secure full employment in the course of post-war reconstruction and beyond. In 1943, he published his Studies in Economic Dynamics in which he combined his business cycle theory with long-run growth.

From the end of 1943 to the end of 1952 he worked as Assistant Director at the Economic Department of the UN Secretariat in New York. In 1946 he moved to Cambridge to become the first permanent director of the new economic research institute of the British war economy and on ways to secure full employment in the course of post-war reconstruction and beyond. In 1943, he published his Studies in Economic Dynamics in which he combined his business cycle theory with long-run growth.

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Kalecki’s academic and policy influence did not last long. Political developments in major industrial countries is subject to significant fluctuations. From the viewpoint of this conference, two conclusions quoted from Kalecki’s paper Multilateralism and Full Employment seem especially pertinent: (a) there are two alternative conditions which make certain the smooth functioning of a multilateral system of international trade:

(a) that each country should maintain full employment based on domestic expenditure and on net foreign expenditure financed by international long-term lending;

(b) that the level of current long-term lending from ‘not fully employed countries’ should be sufficiently high (this alternative may in some cases coincide with the first one if this condition is not fulfilled). Full employment in the world as a whole: (a) that each country should maintain full employment based on domestic expenditure and on net foreign expenditure financed by international long-term lending;

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The Rationale of the Conference

Michał Kalecki (1899-1970) was a distinguished and world-renowned Polish economist who, in 1933 alongside John Maynard Keynes, laid the foundations of what became known as the Keynesian Revolution. One of Michal Kalecki’s fields of interest was the relationship between multilateral trade and full employment policies. This issue continues to be of relevance today when we are analyzing the global economy from the perspective of an international equilibrium. This question had been discussed among the experts that founded the Bretton Woods Institutions exactly 75 years ago and is within the OECD’s scope of interest. The conference, celebrating Kalecki’s 120 birthday, will focus on the problems of handling structural imbalances in current accounts, including in developing countries. It will also touch upon the issue of full employment policies and the role of structural reforms in promoting them.

Call for papers: Please send your abstracts (max. 300 words) before Friday, June 21, 2019 to: paryz.oecd.sekretariat@msz.gov.pl

The capitalist economy operates, as a rule, below the capacity use of factors of production, and the market mechanism, left to itself, is unable to achieve and maintain full employment. The free competition assumption is rejected and oligopoly price fixing by producers of manufactured goods and of services rules. These two assumptions make the aggregate supply function close to horizontal (unit prime costs constant or only slightly rising) within the “normal” range of changes in the volume of output and employment; in the neighborhood of full employment, it sharply rises. The theory of income distribution according to marginal productivity is rejected and replaced by the class-conflict theory of distribution based on his concept of “degree of monopoly” that represents the competitive structure of the market.

Economic dynamics and business fluctuations are determined by changes in private investment, which through his fundamental profit equation and his theory of income distribution are functionally linked to changes in output and employment. Investment decisions are in turn a complex function of expected profits and of the degree of employment of the existing capital stock. As a rule, the income-generation effect of private investment when they are under construction is insufficient to achieve and maintain full employment. Therefore, in the absence of an export surplus, full employment requires government intervention through either (I) tax or other measures that stimulate private investment, or (II) debt-financed public spending financed, or else (III) redistribution of income to low-earning and therefore low-saving households.

To what extent these policy recommendations are viable in the present-day, international finance-dominated capitalist system is an open question much discussed by Post-Keynesians and Post-Kaleckians.

Key Note Speakers

Jerzy Osiatyński,
Economics of Michał Kalecki and its Relevance To-day.

Stephany Griffith-Jones,
International Equilibrium — the Outstanding Challenges.

Jan Toporowski,
International Debt Problem.

Esteban Perez,
The Prebisch-Kalecki debate.

Main Tenets of Kalecki’s Theory of Economic Dynamics and Bussiness Fluctuations

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