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Jan Kregel's Economics

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I first met Jan Kregel in the early 1980s at the annual summer Trieste International School that he had organized along with Pierangelo Garegnani and Sergio Parrinello on various topics of Post-Keynesian Economics. I had read his work, which was included in most PhD syllabi classes at The New School. My next encounter with Kregel was through Hyman P. Minsky at the Levy Economics Institute in New York when he became a frequent speaker, panelist and discussant at conferences, workshops and other institute events. He would regularly contribute his writings to the institute's publications; the first one was on 'Globalization, Capital Flows and International Regulation.'

Jan Allen Kregel was born in Dallas, Texas in 1944. He is currently senior scholar directing the monetary policy and financial structure research program of the Levy Economics Institute and the director of Bard College's Master degree in Economic Theory and Policy. In addition, he holds the appointment of professor of development finance at Tallinn University of Technology in Estonia. He holds a BA degree from Beloit College in Wisconsin and received his PhD from Rutgers University (Paul Davidson was the chairman of his dissertation committee); he also studied under the tutelage of Joan Robinson and Nicholas Kaldor at the University of Cambridge. He has held professorial appointments in Europe at the University of Bristol, Université Catholique de Louvain, University of Southampton, Rijksuniversiteit Groningen, Universität Bremen, Università di Firenze, Università degli Studi di Roma-La Sapienza, Università di Pavia, Université d'Orléans, Université de Nice, Johns Hopkins University School of Advanced International Studies-Bologna Center, Università di Bologna; in the US at Livingston College at Rutgers University, The New School for Social

Research, University of Tennessee, University of Missouri-Kansas City; and in Mexico at Universidad Nacional Autónoma de Mexico.

Furthermore, for some years, Kregel was a high-level expert in international finance at United Nations Conference on Trade and Development (UNCTAD), directed the Policy Analysis and Development Branch of the UN Financing for Development Office and was deputy secretary of the UN Committee of Experts on International Cooperation in Tax Matters. In 2009, he served as Rapporteur of the President of the UN Assembly's Commission on Reform of the International Financial System.

In 2011, Kregel was elected to the Accademia Nazionale dei Lincei, also known as the Lincean Academy, the oldest honorific scientific organization in the world. Founded in 1603, the academy counts Galileo Galilei among its original members. It has remained an elite organization of only 540 members, with only 180 of those from outside Italy. Although the academy covers all scientific and literary fields, Kregel is a member of the division for moral, historical and philological sciences, specifically, the social and political sciences. Robert Solow, Amartya Sen and the late Paul Samuelson are among the other American economists who have been elected foreign members of the academy. He is a life fellow of the Royal Economic Society (UK) and an elected member of the Società Italiana degli Economisti. In 2010, he was awarded the prestigious Veblen-Commons Award by the Association for Evolutionary Economics for his many contributions to the economics field.

Just as Kregel's faculty appointments have been geographically diverse and the content wide ranging, so have his intellectual endeavors. His voluminous contributions – more than 200 articles in edited volumes and scholarly journals (the *Economic Journal*, *American Economic Review*, *Journal of Economic Literature* and the *Journal of Post Keynesian Economics* among them) and a roster of highly acclaimed books – show his deep understanding of the economics of Keynes. He was strongly influenced by the teachings and writings of Davidson and Sidney Weintraub in the US while his move to the UK exposed him to the Anglo-Italians – Robinson, Kaldor, Sraffa and Pasinetti, who became the impetus for his concentration on 'synthesis, integration and delineation of a Post-Keynesian methodology and paradigm' (Wray 2013). Interested in the controversies surrounding capital and distribution theories and their implications for models of long-run economic growth, he argued that a theory of distribution is necessary for a proper theoretical analysis of growth; and, by extension, a proper growth theory aimed at determining the rate of profit, in its turn, will determine a distribution theory consistent with a capital theory, thus closing the theoretical circle. In his attempt to delineate theoretical cohesiveness, Kregel suggested some generalized formulations to deal with the controversies by examining and contrasting models that represented the classical, neoclassical and Keynesian traditions. The examination included the von Neumann and Sraffa models compared with Samuelson's 'Surrogate Production Function' that in its attempt to rescue the neoclassical model from Sraffa's *Critique* of the 'impossibility of determining the rate of profit by the marginal net product of capital' (Kregel 1971, p. 39) 'utilised a malleable capital input [assuming] a smooth substitution in the production function between capital and labour', thus arguing that the same results can be obtained using either the Sraffa system or the neoclassical marginal productivity approach (Kregel 1971, p. 40). To show how a consistent theoretical framework can be developed, Kregel compared a representative group of marginal theory-based neoclassical models (Meade, Tobin, Solow and Samuelson-Modigliani) with models belonging in the Keynesian-Kaleckian tradition (exemplified by those bearing the signature of Harrod, Kaldor, Pasinetti and Joan Robinson), whose method and overall approach in determining the rate of profit and distribution was grounded on the assumption that investment decisions were independent of savings decisions.

This line of research inquiry continued in which Kregel focused on the reconstruction of political economy drawing again from the work of Keynes, Kalecki and the classical economists in an attempt to develop a coherent framework for economic analysis. In so doing, he established the foundations of what has come to be known as the Post-Keynesian theory presenting it primarily 'as a positive approach to economic analysis, showing along the way some similarities with what the classical economists called Political Economy' but paying limited attention to criticizing the neoclassical theory (Kregel 1973, p. 205). A seminal and very influential article written subsequently together with another Post-Keynesian theorist, the late Alfred S. Eichner (1975), clarified the general theory of the new paradigm including its critique of neoclassical theory, especially for its reliance on the aggregate production function and general equilibrium approach. This article proclaimed the paradigm of Post-Keynesian Economics. The theories of profit and distribution that were debated in Cambridge, UK in the 1960s and 1970s led Kregel to examine the possibilities of whether Keynes' method could integrate his theory of monetary production with the Cambridge theories of value and distribution (Kregel 1971, 1976c, 1978, 1980a), growth theory (1972, 1980b) and the capital debates (1976a).

Even though his books on growth (1972) and capital (1976a) were not 'Modern Treatises' that would settle the controversies once and for all, they dealt extensively with the controversial issues between the two Cambridge (US and the UK) approaches surrounding these topics. While growth and capital have many similar aspects, Kregel's books avoided duplication and were complementary. Drawing from the work of Sraffa and Robinson, he showed the serious shortcomings of the neoclassical production function, and the crucial distinction that a quantity measure of capital could not be defined independently of the rate of profit (or price of capital) unlike the orthodox theory approach based on the two being independent of each other. Kregel's many writings on Post-Keynesianism have established him as is one of the leading economists in this area, and his theoretical and policy work have inspired and guided many Post-Keynesian scholars.

As Wray points out in Chapter 4, Kregel shifted his attention from the Cambridge debates to issues of effective demand (1983a, 1984–85, 1987). He became interested in Keynesian methodology, contrasting Keynes' method with that of the so-called bastard Keynesians (a la Robinson) and contending that when modeling expectations form under uncertainty, Keynes' methodology relied on changing states of equilibrium (1976b, 1977, 1980c, 1982, 1983b). In a number of papers, he concentrated on asset price formation and Keynes' analysis of 'the essential properties of interest and money' (Chapter 17 of *The General Theory*, 1988a, 1988b, 1992c) showing that 'Keynes multiplier theory and own interest rate analysis were equivalent expressions of his theory of effective demand' (Wray 2013, p. 355). Reading this later work, one can see the connection to his earlier work; it demonstrates the compatibility of Sraffa's commodity rates of interest that in equilibrium produce Sraffa prices, and Keynes' theory of money prices based on own rates of interest that, too, in equilibrium equal the money rate of interest in concert with the liquidity preference (1983a, pp. 60–61). He became intolerant of non-neoclassical writings that disregarded Keynes' ideas regarding formation of expectations, criticizing equally the Cambridge and French circuitist approaches that interpreted Keynes' analysis as 'long run' (1985, 1986).

Other research has focused on investigating the implicit use of derivatives (forward, futures, options) prices in Keynes' analysis of production decisions. This has led Kregel to further investigate the relation between the pricing and use of financial derivatives and macroeconomic performance and, particularly, determining the relation, if it exists, between user costs and options prices in the specification of investment decisions and supply resources. He achieved this through a historical examination of the development and evolution of financial market institutions and behavior, as well as by exploring the linkages between the diverse versions of neoclassical price theory and particular equity market microstructures. Kregel identified clear linkages between different theories and institutional structures of financial markets and provided an explanation of the evolution of market forms and pricing that are dependent on the effects of technology, trading rules and government constraints. Examples of this abound, one of which was the case with the increasingly unwieldy and costly call options market, because of its size and complexity, which was ultimately transformed into a dealer market (1988c, 1992a, 1995).

Kregel, then, turned his research to various aspects of economic policy, institutional structure – mainly international financial institutions – and the international monetary system. This new focus culminated in a number of new papers focusing not only on the US and Europe (1994a, 1994b, 1994–45) but also the Eastern European economies in transition, strongly criticizing the mainstream 'market shock' doctrine (Kregel, Matzner and Grabher 1992). As many of the Post-Keynesian writers, Kregel is critical of restrictive monetary policy and the mainstream belief that budget deficits must be controlled with high interest rates. He has questioned the notion of fiscal responsibility that is equivalent to restrictive fiscal and monetary policy, which, if allowed to continue, generates financial market instability (2010a).

While continuing to publish papers on various aspects of Keynesian monetary theory and policy (1998a, 2004a, 2009a, 2010b, 2013a), Kregel developed an interest in issues of economic development at almost the same time he joined the UN. In a number of papers, he explored issues relating to obstacles in instituting and implementing options for development policy and strategy (2004b), the difficulties and challenges in creating a stable international environment and financial system fostering resource transfers to developing economies (1996a, 2004c), capital transfers that ensure financing development (1994c) and employment strategies toward mobilization of the usually plentiful unemployed labor in developing countries (2009b). Writing on development economics, various aspects of trade theory and policy become inescapable. Kregel has written a significant number of papers on trade policy and globalization issues (2008a, 2008b, 2009c) and co-edited two books on the economic contributions of one of the most prominent trade and development economists of our time, Ragnar Nurkse (2009a, b). The UN assignment created yet another fertile ground for Kregel to carry out research and write on issues affecting economic and financial stability in the emerging markets of Latin America and elsewhere, drawing from Minsky's 'financial instability hypothesis' and the lessons of the Asian, Brazilian and Mexican financial crises (1998b, 1998c, 2000, 2009d).

Kregel's razor-sharp mind and critical pen did not spare the European Union economies and, more specifically, the incomplete construction of the Economic and Monetary Union. In a series of papers (1996b, 1999a, 1999b), he foresaw the sovereign debt crisis coming, not only because of the flaws of the Maastricht Treaty, based on unrealistic and irrelevant supply-side assumptions of countries' convergence on which the Euro project was structured, but also due to the absence of a banking union to ensure that deposits could not fly from the banks of the weakest economies to the banks of the strongest Eurozone member states. What he foresaw has come to pass (2011, 2012).

After retiring from the UN, his association with the Levy Institute was changed and he became senior scholar and director of the monetary policy and financial structure research program to continue and expand the program initiated and run by Minsky until his untimely death. It was particularly fitting for Kregel to continue Minsky's research as the most knowledgeable follower of his work. Kregel's own work embraced and extended the Minskyan canon as demonstrated in many of his published articles (1992b, 1997, 2000). Shortly thereafter, the US and the global financial system began to unravel and everyone came to Minsky searching for answers (Kregel 2010c). Kregel's main research and writing at the Levy Institute has been both theory and policy specific, ranging from financial regulation and supervision, the role of the Federal Reserve, the short comings of ineffective legislative initiatives (such as the Dodd-Frank Reform Act in the US and others in Europe and elsewhere), public deficits and debt, the continuing crisis in the Eurozone and the emerging markets, particularly in Latin America, and critiquing the responses from the European Commission and the European Central Bank (ECB). Furthermore, articles on the enduring problem of high unemployment in Europe, the US and elsewhere promoted the macro and microeconomic benefits of Minsky's Employer of Last Resort policy as a development and a stabilization program. He secured a very significant and multi-year financial grant from the Ford Foundation to undertake a Minskyan project to provide insights to crucial questions such as: How to re-regulate markets and financial institutions that would ensure financial system stability? How can shadow banking be controlled? How can the safety and soundness of the payments system be secured? Under what conditions can the 'too-big-to-fail' doctrine end? How can systemic risk be eliminated or dramatically reduced? What is the proper financial structure that will promote the capital development of the economy? Will the Dodd-Frank Reform Act, once it is put in place, prevent a financial collapse from happening again? Finally, in a globally interconnected world, how do attempts to reform the financial system in Europe and the rest of the world ensure financial stability? While the work is continuing, a number of reports (Levy Institute 2011, 2012) and a plethora of articles have been produced and published (see especially Kregel 2008c, 2010d, 2010e, 2013b).

This introductory chapter does not provide an adequate summary of those that follow but, in a few sentences, attempts to demonstrate how each chapter contributes to and extends Kregel's ideas. The reader will need to delve into the details of each contribution to discover its individual message. Part I of the book concentrates on issues of economic theory and relating to Kregel's contributions to it. It opens with Mathew Forstater's Chapter 2, which mostly details Kregel's early contribution to economics by confronting 'head on the cutting edge problems in the discipline' and attempting to produce a coherent heterodox alternative (Post-Keynesian paradigm) to mainstream economics in a way as a 'reconstruction of political economy and generalization of [Keynes'] General Theory'. Forstater focuses on Sraffa's contributions on value and distribution recognized as the revival of Classical Political Economy – important to Kregel's writings as mentioned earlier – and Adolph Lowe whose concentration on growth and technical change independently made similar arguments with Sraffa. As Forstater contends, both shared some common and complementary views, and of great significance are their independent rediscoveries of the circular nature of production in the classical approach. Alessandro Roncaglia and Mario Tonveronachi, in the next chapter, follow Forstater's presentation of Sraffa's contributions in that they seek to develop an internally consistent Keynesian-Sraffian framework of analysis. Their approach is, to some extent, in concert with that developed in Kregel's writings drawn from Sraffa and Keynes. Methodologically, they suggest that there may be value in relying on 'pieces of analysis' for different issues without requiring universality in a single unifying general model, but instead seeking 'conceptual compatibility'. They illustrate what they mean by suggesting that neither an attempt to subordinate Keynes to the classical (Sraffian) analysis of value and distribution within the context of long-run period nor preserving Keynes' reliance on Marshall's frame of short-period analysis is a good research strategy. A better research strategy, instead, may be one that relies on making use of separate analytical building blocks to deal with different issues within an internally consistent framework. In his chapter,

L. Randall Wray examines Kregel's contributions that help us understand Keynes' treatment of money in his General Theory. While most economists adopted what is written in *The General Theory*'s Chapters 13 (The General Theory of the Rate of Interest) and 15 (The Psychological and Business Incentives to Liquidity), which is based on Marshall's supply and demand concepts, Kregel emphasized the crucial importance of Chapter 17's own rate analysis (Kregel 1988a). The own rate approach came out of analyses of commodities prices and exchange rates in Keynes' earlier work *A Treatise on Money*. It was also determined by Sraffa and is not subject to the Cambridge critiques of price determination by the forces of supply and demand. Wray offers an analysis of the three Cambridge revolutions in theory (imperfect competition, capital and Keynesian) and demonstrates the relation of those to Keynes' approach to money. Furthermore, he shows that Keynes offers a coherent endogenous money approach with a fundamental role for liquidity preference. Eric Tymoigne's chapter further explores the role of money by analyzing various monetary systems based on their financial characteristics. As Minsky long ago pointed out, anyone can issue money, but the important issue is how to have it accepted. As Tymoigne suggests, the fact that something is a legal tender, circulates at a fixed price or is a medium of exchange provides only a preliminary assessment that it is a monetary instrument. Using this framework of analysis can provide some insights into past monetary systems and monetary mechanisms as well as what influences the fair market value of monetary instruments and how these can circulate at par value. Differences are also drawn between changes in the value of money as a unit of account and changes in the fair value of monetary instruments.

Part II of the book considers the important issue of employment policy and opens with Pavlina R. Tcherneva's contribution in Chapter 6. Full employment over the long run is an important issue in Kregel's study and writings (1985, 1999a, 2008d) and Tcherneva's contribution explores the sort of economic structure that can achieve it without inflation. Using a Post-Keynesian markup model, she examines the effects of different fiscal policies on price stability and income distribution. She considers the government playing several distinct roles such as income provider, employer and buyer of goods and services. Modeling Minsky's Employer of Last Resort (ELR) policy – government functioning as employer – she derives a price equation for a full employment economy, in effect creating a 'price rule' (the basis for the ELR wage rule) for government spending that ensures the ELR policy does not contribute to inflation. Jayati Ghosh's contribution, in Chapter 7, considers the effects of an employment guarantee program as a development strategy (Kregel 2009b) in India. Her analysis centers on the effects of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) on raising employment levels and wages, increasing demand and improving agricultural productivity. Despite the program's partial implementation, she reports that it has had positive impacts such as increasing rural wages, reducing gender wage gaps, smoothing consumption of the poor, acting as a built-in stabilizer during crisis, enabling better access to nutrition and other essential consumption, reducing extreme distress migration and enabling more household expenditure on health and education. Furthermore, in some areas it has improved rural connectivity and created more sustainable forms of irrigation and production. However, Gosh also raises concerns about the program's functioning and the level of government commitment to it.

Part III of the book concentrates on various issues of economic development, an area in which Kregel has contributed a lot. The opening chapter, by Leonardo Burlamaqui and Rainer Kattel, attempts to bridge the Schumpeterian with and the Minsky–Kregel financial Keynesianism approach to better understand economic development paths. In doing so, the authors argue that empirical evidence shows that divergence among nations, rather than convergence, is the more appropriate conceptualization of development. Moreover, they suggest that the development theory needs a framework of analysis to conceptualize continuous, structural, cumulative change and Schumpeterian 'creative destruction' different than the conventional perspective of convergence and catch-up of economic development. The alternative framework can be found in the concept of leapfrogging through innovation. Finally, financial stability must be ensured via robust organization of financial regulation and supervision as Minsky and Kregel have argued. In the next chapter, Luiz Carlos Bresser-Pereira argues in favor of assessing economic development using 'developmental macroeconomic models'. He discusses, extensively, the importance of Keynesian aggregate demand, but that empirical evidence shows that in developing countries aggregate demand does not always motivate sufficient investment to achieve full employment. History reveals that it will be necessary for developing economies to consider the effects of cyclical and chronic overvaluation of the exchange rate and establish consistent policies in managing capital flows through capital controls. In the chapter that follows, C.P. Chandrasekhar is concerned with sources of financing development in an era of financial liberalization. Development finance before the era of market liberalization was dependent on specialized development banking institutions, that is, Brazil and China, but with financial liberalization this form of financing has been substituted by financing obtained in equity and bond markets, that is, India and many other developing countries. Chandrasekhar examines, in considerable detail, the differences of these financing strategies by assessing how development finance institutions have been strengthened and protected in contrast to the market obtained finance and draws significant implications in their respective paths of development. Mexico's economic development from the 'economic miracle' period to periods of stagnation is documented and analyzed by Julio Lopez Gallardo in Chapter 11. His analysis echoes a number of Kregel's ideas on the obstacles of development and the varying adjustment policies to ensure the continuation of economic prosperity. The examination and evaluation of the roller coaster performance of Argentina's economy, from late 2001 to date, is the topic of Chapter 12. Mario Damill, Roberto Frenkel and Martin Rapetti assess the government of Argentina's policy that delivered a rapid recovery after currency devaluation in 2002, from the deep economic contraction and a severe financial crisis that led to a large default of public debt a year earlier. Despite the strong and sustained economic growth that ensued and lasted for almost a decade, a very favorable external context, Argentina's economy faced a lack of foreign exchange reserves that precipitated a currency crisis early this year (2014) and threw the economy into a perilous state. In the authors' assessment, the reasons for this cycle of success and failure lays in macropolicy switching from a stable and competitive real exchange rate to one of populist orientation.

Financial instability and crises are the subject matter of Part IV. Chapter 13 opens by exploring global governance and its relation to financial stability. Stephany Griffith-Jones and José Antonio Ocampo attribute the boom and bust patterns of financial markets to both financial liberalization and inadequate prudential regulation and supervision (Kregel 1998d, Ocampo, Kregel and Griffith-Jones 2007). Despite the multiple and costly crises that this has caused, including the severe 2007–09 North Atlantic crisis, only some uneven changes in the international financial architecture have been adopted. To be sure, the authors note that some progress has been achieved on the domestic front in prudential regulation and supervision in the developed and emerging economies that also include some small design changes in the International Monetary Fund's (IMF) emergency facilities. However, there continues to exist inadequate regulation of cross-border capital flows and IMF conditionality that is still dependent on an old and inappropriate mechanism used in dealing with international debt workout problems. In the next chapter, Jomo Kwame Sundaram echoes the inadequacy of international financial governance reforms subsequent to the 1997–98 East Asian crisis. He argues that contradictory lessons have been learned from the East Asian crisis experience, and these are very likely due to ideological and political differences that have prevented the implementation of far-reaching reforms. Moreover, he contends that obstacles for reform are supported by conventional economic wisdom, the media and the existing international monetary and financial governance arrangements. An altogether different approach to ensuring stability is put forward by Erik S. Reinert in Chapter 15. In his chapter, a comparison is drawn on the actions of two central bankers when faced with a financial crisis: Marriner Eccles, who was the Federal Reserve Chairman from 1934–48, and Mario Draghi, the current president of the European Central Bank. While Eccles was a facilitator of the US recovery from the Great Depression, Draghi, in preventing inflation, has allowed the welfare-reducing austerity to take hold with catastrophic results in the Southern Eurozone member countries. Reinert attributes the countermovements, or lack of them, to the differences in theoretical Zeitgeist – domination of esoteric knowledge – together with personal goals that impede the implementation of a countermovement to a financial crisis.

The focus of Part V is on financial regulation and supervision. The single contribution, Chapter 16, explores the adequacy of the proposed revisions of the Basel III Accord on the capital requirements of banks. Fernando J. Cardim de Carvalho questions the assumed success of the revised Basel III. Drawing from the work of Minsky (1982) and Kregel (1998d), he argues that the revisions in Basel III relating to leverage and liquidity would do little to prevent another financial crisis from happening again. A financial innovation-guided banking sector would discover new ways to self-calculate the risk-weighted exposure despite the assumed tightening in the Basel III Accord.

The essays that form the chapters of this volume were especially commissioned to celebrate Kregel's contributions to economic theory and policy analysis on the occasion of his 70th birthday and were written by scholars from many parts of the world who were associated with Kregel or who have been influenced by his economic research. These essays will be delivered in a conference to be held in October 2014 at the Levy Economics Institute, Kregel's intellectual home.

Very few economists have published as extensively as Kregel has. He has, as detailed above, written on macroeconomic theory and policy, methodology, growth and capital theory, unemployment, development and trade, uncertainty, formulation of risk, the role of the state, finance, the financial structure and instability, central banking, macro-prudential supervision, globalization, the Economic and Monetary Union (EMU) and the European sovereign debt crisis. His contributions to any one of these areas would manifest a truly distinguished career; the collection is absolutely remarkable. He taught many generations of students, influenced the professional careers of many economists and has contributed immensely to the Levy Institute's research activities and reputation. I thank Jan Kregel, who has professionally done so much for economics, the Levy Institute and me.

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