POST-KEYNESIAN INSTITUTIONALISM: CONTOURS AND FRONTIERS[*]

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Abstract

Post-Keynesian institutionalism (PKI)—a branch of the (original) institutionalist school that builds on common ground with post-Keynesianism—constitutes a robust tradition with secure foundations and broad methodological, analytical, and policy contours. Since its emergence in the 1980s, that tradition has consistently been ahead of the economic mainstream in shedding light on real-world problems. Drawing on the work of various heterodox economists—including John Kenneth Galbraith, Joan Robinson, Alfred Eichner, and Hyman Minsky—this article sketches the contours of today's PKI, including its attention to institutional characteristics of labor and product markets, features of industrial organization, interrelations of finance and macroeconomics, and long-term trends in capitalist development. The article also discusses how PKI relates to the post-Keynesian economics of Fernando Cardim de Carvalho and surveys the frontiers of PKI. The discussion of frontiers and the article's brief conclusion underscore post-Keynesian institutionalists' commitment to an ever-evolving body of theory and policy research.

Keywords: post-Keynesian institutionalism; John Kenneth Galbraith; Hyman Minsky; megacorps; financial instability; money manager capitalism; Fernando Carvalho

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1. Introduction

At the end of 1982, Ray Marshall—an institutional labor economist—surveyed the analytical shortcomings and policy failures of neoclassical Keynesianism and Reaganomics at a meeting of the Association for Evolutionary Economics (AFEE). As he spoke, the unemployment rate in the United States stood at a postwar high of 10.8 percent, and the American economy had just experienced a decade of stagflation and several years of double-digit interest rates. The time was right, Marshall concluded, for an alternative economic analysis and policy agenda based on a synthesis of institutionalism and post-Keynesianism (Marshall, 1983).

Today, post-Keynesian institutionalism (PKI)—a branch of the (original) institutionalist school that builds on common ground with post-Keynesianism—constitutes a robust tradition with secure foundations and broad methodological, analytical, and policy contours. PKI was foreshadowed in the first half of the twentieth century by the affinity between John R. Commons and John Maynard Keynes, conceived in the mid-1970s, and began to take shape in the 1980s—first in *An Inquiry into the Poverty of Economics* (Wilber and Jameson, 1983), which focused on stagflation, and later in more dynamic economic analyses influenced in large part by the ideas of Hyman Minsky.[1] The tradition proved its worth during the global financial crisis of 2007–2009, by analyzing and addressing that period's tumultuous events far better than standard economics. Additional and more recent post-Keynesian institutionalist research demonstrates that PKI remains ahead of the economic mainstream in shedding light on contemporary problems, especially by analyzing long-term trends in capitalist development, including financialization, spreading worker insecurity, and rising inequality.

This article surveys the contours and frontiers of today's PKI. The section on contours includes a discussion of how PKI relates to the post-Keynesian economics of Fernando Cardim

[1] On the affinity of Commons and Keynes, see Whalen (2008, pp. 44-46); for a pathbreaking article envisioning PKI, see Peterson (1977); and for more on the origin and development of PKI, see Whalen (2022a, chapter 4), which includes a discussion of mid-20th century essays by Allan Gruchy that envisioned a synthesis of the economics of Keynes and the institutionalists. Also, for a recent survey of contributions to PKI, with extensive references, see Whalen (2020a).

de Carvalho.[2] The frontiers section, like PKI overall, reflects Minsky's (1996, p. xiii) observation: "As capitalism evolves, so too should economic theory and policy."

2. Contours of PKI

The contours of PKI can be organized into three categories: methodology, analysis, and public policy. The first category includes essential preconceptions (pre-analytic foundations) involving society, the economy, human behavior, values, and science. The second category includes key research themes and analytical constructs. The third category includes a perspective on the role of government and public policy. Each category is considered in turn, followed by a brief look at PKI in relation to the economics of Carvalho.[3]

2.1. Methodology

As a branch of institutional economics, PKI adopts the institutionalist definition of economics as well as its underlying methodology (or pre-analytic vision). According to most contemporary institutionalists, economics is "the science of social provisioning," a definition that originated with Allan Gruchy (1987, p. 21). This definition reflects an effort by institutionalists to offer a broader conception of economics than conventional economists, who focus on allocation of scarce resources—most often through market mechanisms (in fact, market allocation is the preferred method)—in a world populated by maximizing agents (individuals, firms, etc.) with unlimited wants.

The post-Keynesian institutionalist conception of society emphasizes interrelatedness and ongoing social change. The first of these emphases is referred to as *holism* (or *organicism*), which views social reality as a unified whole and holds that boundaries between the economy and other social spheres are always imprecise. Thus, while mainstream economics rests on an *atomistic* conception of society, which treats different social spheres as analytically separable and as operating according to their own laws and forces, PKI instead adopts the institutionalist view described by Gunnar Myrdal (1969, p. 10): "In reality, there are not economic, sociological, or

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[2] In this article, I use a hyphen when referring to the "post-Keynesian" tradition, as did several of the literature's earliest contributors—and as does Lavoie (2022).

[3] While this article discusses PKI in relation to Carvalho, readers are encouraged to compare the PKI described here with overviews of institutionalism (such as Hodgson (2000) and Schneider (2019)) and post-Keynesianism (such as Dow (1991) and Lavoie (2022)). In my view, PKI resides at the intersection of both traditions.

psychological problems, but simply problems, … [all of which] are complex." Meanwhile, the institutionalist emphasis on ongoing social change is referred to as an *evolutionary* or *processual* perspective. In other words, while conventional economics focuses on conditions leading to a state of equilibrium, PKI views social systems as dynamic, ever-developing entities (owing to internal and external sources of change), and its economists are keenly aware that all social activity occurs in irreversible historical time.

By focusing on social provisioning, PKI casts a wider net than conventional economics when considering what constitutes "the economy." While PKI does not ignore market allocation of goods and services, it tends to give more attention to macroeconomic stabilization and distribution. PKI also goes further, not only by making room for analyses of production, social reproduction, and want creation, but also by recognizing that the market is only one type of human institution involved in shaping provisioning decisions (such as what is to be produced, how, and for whom), along with other institutions including households, governments, and indeed all the social institutions that together determine culture in its totality.[4]

In contrast to the conventional economic presupposition that market mechanisms are self-regulating, PKI rejects the notion that economic systems have any inherent tendency. Instead, PKI sees social institutions, not impersonal forces or universal laws of nature, as the balancing wheel of the economy. To be sure, post-Keynesian institutionalists accept that the price system may sometimes exhibit equilibrating tendencies, but they recognize that market dynamics can also involve cumulative causation (such as a tendency toward increasing fragility), path dependence, and hysteresis. In fact, PKI stresses that price adjustments often fail to effectively coordinate supply and demand at the microeconomic, macroeconomic, or supranational levels.[5] As a result, real-world markets cannot be counted on to correct themselves rapidly or fully, particularly in a downturn (when pessimism and risk aversion pervade the economic scene). Like both post-Keynesian economics and institutionalism, PKI emphasizes economic disequilibrium, instability, and that economies can stall at far below potential for extended periods.

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[4] For perspectives on wants, want creation, and consumer choice consistent with PKI, see Brazelton and Whalen (in Whalen, 2011, pp. 32-33); Dugger (in Whalen 1996, pp. 38-39); Lavoie (1994); and Waller (2008).

[5] PKI stresses that price changes may not regulate markets not only because social institutions may be impervious to price changes, but also because supply and demand phenomena are often not independent. Moreover, pricing is itself a social process. See, for example, Eichner (1985); Jo (2016); and Whalen (1996, pp. 8-17).

PKI also has a broader and fundamentally different view of human behavior than conventional economics. Competition is the driving force in conventional economics: the coordinating function of prices at the heart of such economics requires workers to compete with other workers, companies to compete with other companies, and consumers to compete with other consumers. Competition even lurks behind the "voluntary" market transactions that are the showpiece of conventional economics; the two main parties in every transaction are driven by a competing motivation (buyers want the lowest price and sellers want the highest price). In contrast, by building on the methodology of institutionalism, PKI recognizes the full range of human motivation and interaction, including competition, conflict, compromise, cooperation, dependence, care, and nurturing. PKI also recognizes that power is rarely distributed equally and—as Wallace Peterson (1977) stressed in his AFEE presidential address—that power relations have a significant influence on human behavior and economic performance; thus, attention to power must be part of the work of PKI.

Moreover, what makes the post-Keynesian institutionalist view of human behavior fundamentally different from that of conventional economics is rejection of the extreme conception of rationality upon which the economic mainstream rests. As Marc Lavoie (1992, p. 11) writes, conventional economics is based on "a very peculiar type of rationality," which he calls *substantive* rationality. According to that rationality, humans maximize utility (or enterprise profits) in a manner consistent with an ability to predict all future events and fully assess all possible alternatives and consequences. In contrast, PKI—rooted in an extensive institutionalist and post-Keynesian literature—is based on what might be called *bounded* rationality (also called *procedural* rationality) (Lavoie, 1992, pp. 12, 51): people act on the basis of imperfect knowledge, using expectations shaped by culture and formed in a world of uncertainty; they rely heavily on habits and social conventions; lessons are learned through experience (which often involves unmet expectations); and ends and means are subject to constant reconsideration.[6]

[6] The type of rationality embedded in economic analyses can have major consequences. For example, the rationality embedded in PKI is consistent with unsustainable booms, financial crises, and severe downturns. In contrast, the rationality embedded in conventional economics is what led mainstream economists to reject as unimaginable the possibility of an event such as the global financial crisis of 2007–2009. The type of rationality embedded in PKI also leads to an approach to consumer choice that differs significantly from that of conventional economics; see Lavoie (1994). Also, see Lavoie (2022, pp. 16-17), which uses the term "model-consistent" rationality in place of substantive rationality and "environment-consistent" rationality in place of bounded rationality, and emphasizes that the former is associated with optimizing behavior, while the latter is associated with satisficing. In addition, see

The post-Keynesian institutionalist approach to values is multifaceted. It begins with a recognition that all economics is value laden. As Myrdal (1978, pp. 778-779) wrote: "Valuations are always with us. Disinterested research there has never been and can never be. Prior to answers there must be questions. There can be no view except from a viewpoint. In the questions raised and the viewpoint chosen, valuations are implied." In a similar manner, Joan Robinson (1970, p. 122) rejected the mainstream's notion of positive economics, and her approach to dealing with the matter is an essential part of PKI: "[An economist's attempt] to be purely objective must necessarily be either self-deception or a device to deceive others. A candid writer will make his [*sic*] preconceptions clear and allow the reader to discount them if he does not accept them."[7]

Another facet of the post-Keynesian institutionalist approach to values is recognition that, depending on the circumstances, individuals and groups make value judgments by using one (or more) of a variety of valuation standards. For example, we can value things on the basis of *scarcity* (platinum, for example), *usefulness* (either because the item in question—water, for instance—is needed to sustain life, or because it—perhaps a hammer, or even a particular public policy—is the right tool for a particular job), *expected utility* (which could be based on either a whim or a careful consideration of the happiness to be gained through acquisition and/or consumption), or *embodied labor or skill* (that is, the time, effort, and talent we or others put into constructing something). Market prices also serve as a valuation standard; prices are often in large part a measure of scarcity value, but prices are actually cultural products that may not fully reflect any of the measures of value just mentioned. In addition, people often disagree about values and valuation methods, which underscores the need for procedures to determine group or social values.[8] PKI recognizes these many different individual and group valuation standards and methods.[9]

Wunder (in Whalen 2022b, pp. 230-252), which stresses that acting rationally is not the same as engaging in optimization.

[7] In the last dozen or so years of her life, Robinson highlighted several themes that fall within the common ground shared by post-Keynesians and institutionalists. In addition to the value-laden nature of economic analysis, those themes include the economic importance of uncertainty, historical time, institutions (especially money and financial institutions), and the need to focus economics on addressing real-world problems. For example, see Robinson (1972; 1980).

[8] Commons's "reasonable value" concept offers one approach to social valuation; see Whalen (2022a, chapter 2).

[9] In much of the institutionalist literature, usefulness is considered "instrumental" valuation, though Commons called it "efficiency."

But PKI doesn't merely recognize such standards and methods. It also underscores the need to study them: to discover what are the operative values in a given situation; to learn how those values were formed and are evolving; and to identify the way values affect economic outcomes. In short, an additional facet of the post-Keynesian institutionalist approach to values is that the entire valuation process is part of the subject matter of economics (as are social influences on wants and human behavior).[10]

A final facet of the post-Keynesian institutionalist approach to values comes from the recognition that PKI is a policy science—aimed at *making the world a better place in which to live* by means of social and economic reform. Thus, PKI encourages economists to take a normative stance on matters of public policy. The only stipulation, of course, is that the value premises of such policy work should be stated "clearly and explicitly" (Myrdal, 1978, p. 779).

The last methodological category involves preconceptions about economics as scientific endeavor. In conventional economics, *prediction* is the preeminent goal, and much less attention is paid to the realism of assumptions (indeed, some mainstream economists argue that realistic assumptions are unimportant). In contrast, PKI joins institutionalists and post-Keynesians in holding that economics should focus on contributing to an *understanding* of actual processes of social provisioning, and in believing that the best way to achieve that end is to strive for theories grounded in realistic assumptions (recognizing, of course, that all theories are an abstraction from reality) as well as to regularly reevaluate theories to keep up with an ever-changing economic reality. Conventional economists often call their scientific methodology *instrumentalism* (Caldwell, 1980); the approach of PKI (as just described) is a mix of post-Keynesian *realism* (Lavoie, 2022, pp. 12-13) and institutionalist *pragmatism* (Gruchy, 1947, pp. 268-269; Whalen, 1992, pp. 63-64).

Consistent with post-Keynesian institutionalism's holistic conception of society, the scientific methodology of PKI can also be called systems thinking. When thinking in terms of interrelated systems and subsystems, post-Keynesian institutionalists often look at real-world cases and construct a theory by fitting individual cases into a larger pattern based on similarities and differences. This is sometimes described as pattern modeling (see, for example, Wilber and Harrison, 1978). In conventional economics, a high degree mathematical formalism is often

[10] For a further discussion of the valuation process, see Gordon (1984).

possible because economic institutions are downplayed as either troublesome (and thus, undesirable) "frictions" or inessential details. In contrast, during pattern modeling, the economists of PKI are willing to forego some formalism in pursuit of greater realism because they recognize that understanding the economy's institutional makeup (including, for example, key features of the economy's structure, as well as the institutionally determined processes that shape wages and prices) is essential to understanding real-world economic activity.

2.2. Analysis

At the level of economic analysis, we can further sketch the contours of PKI by identifying some main themes of post-Keynesian institutionalist research as well as key analytical constructs used in that work. PKI began in the United States and focused initially on the workings of capitalism in that country and other advanced industrial democracies. Since the mid-1990s, however, analyses grounded in PKI have been used to study economies around the world as well as to examine questions involving international economics. In fact, while Minsky's own work focused mainly on the United States, he stressed that capitalism comes in many varieties even as the current stage of advanced capitalist development (money manager capitalism) was becoming increasingly global.

Most PKI focuses on macroeconomic issues. In fact, *the* dominant, overarching theme of PKI has always been an effort to understand how economies operate for the purpose of achieving and sustaining broadly shared prosperity at the national level and extending that prosperity more widely. But that has not meant ignoring microeconomics; indeed, PKI has sought to incorporate, update, and extend the microeconomic insights of institutionalism and post-Keynesianism.

Thus, one post-Keynesian institutionalist theme involves an effort to draw on psychology and other disciplines to better understand the determinants of human economic behavior, both in general and with respect to particular economic issues. For example, Fernández-Huerga (2008; 2013) builds on psychology and neurosciences to highlight the influence of habits and social institutions upon human cognition, reasoning, and decision-making, and to outline post-Keynesian institutionalist models of human economic behavior and markets that are more realistic than those offered by conventional economics. In other work, Brazelton (2005; 2011) and Harvey (2006; 2012) build on the research of psychologists (in addition to sociologists and neuroscientists in the case of Brazelton) to shed light on how the formation of expectations affects financial crises and exchange rates, respectively.[11]

Another theme focuses on the structure of industry. In that research, PKI builds on John Kenneth Galbraith's (1977) notion of a bimodal economy characterized by oligopolistic corporations—which Alfred Eichner (1985) called "megacorps"—and countless small businesses. Of course, the details of today's industrial structure differ greatly from those of the early 1980s when PKI emerged, but contemporary post-Keynesian institutionalists continue to find Galbraith's characterization full of relevant insights and useful as a point of departure for investigations of subsequent industrial evolution. For example, Galbraith's conception of a broadly bifurcated industrial landscape and his emphasis on the administered pricing practices of large corporations remain relevant, while his attention to corporate governance (which focused on the separation of ownership from control) provides a useful starting place for examinations of the rise of money manager capitalism.[12]

Post-Keynesian institutionalist attention to the bimodal structure of industry is also part of a larger theme involving the question: To what extent do product markets, labor markets, and financial markets—indeed, all markets—operate without a conventional, market-clearing price mechanism? Addressing that question puts attention on the role of price markups and other types of administered pricing used in product markets, but also on the broader reality of "imperfect markets with significant monopolistic elements" (Eichner and Kregel, 1975, p. 1309). It also highlights the stratified nature of labor markets, as well as the important role of social norms, institutions, and aggregate demand in determining employment, wages, and other aspects of the employment relationship.[13] In a similar manner, a look at financial markets highlights the fact that credit is a social institution, which depends heavily on culturally influenced expectations and the institutional details of a given regulatory setting. Moreover, no matter where we look, the economy is always evolving, so the answers today will often be quite different from those of

[11] For more on the importance of expectations in PKI, with special attention to the link between expectations and Commons's notion of "futurity," see Atkinson and Whalen (in Whalen, 2011, pp. 53-74).
[12] Galbraith's work on industry structure, pricing, and corporate governance was built on an extensive institutionalist literature, which was later complemented by much post-Keynesian research.
[13] PKI also recognizes that labor market outcomes are shaped by an underlying (and sometimes not so hidden) struggle for income shares, a struggle which underscores the importance of power in economic life. (Indeed, all market outcomes are the product of income struggles.) In addition, PKI observes that market economies tend to operate at less than full capacity, which suggests that insufficient demand is a persistent problem.

a few decades ago. To be sure, there has been an overall trend over the past several decades toward greater price, wage, and interest-rate flexibility—owing to mounting pressure on corporations to maximize shareholder value, as well as increased globalization of production, decreased unionization, and new forms of financial intermediation (combined with a move away from relational financing)—but social and institutional determinants of market outcomes are often still more important than conventional economics acknowledges.[14]

Three other themes place an emphasis on finance: the centrality of money and finance; the evolution of finance; and the integration of finance and macroeconomics. The centrality of money and finance has been central to both institutionalism and post-Keynesianism from the start. PKI inherits a view of capitalism as a monetized economy, in which money and financial institutions play vital roles and the financial accumulation motive is the key driver of economic activity. Minsky described this view as a *Wall Street paradigm*, which emphasizes not only that production precedes marketplace exchange but also that finance precedes production.[15] In PKI, that paradigm manifests itself in the effort to offer a *monetary theory of production*, a theory in which "money plays a central and indispensable role in explaining the process of production" (Dillard, 1980, p. 265). The notion of the monetary circuit also appears in PKI because that circuit—the process by which debt is created, circulates, and is destroyed—corresponds to the dynamics of a monetary theory of production; see Girón (in Whalen, 2022b, pp. 216-229) and Tymoigne (2003.)[16]

A focus on the evolution of finance is important to PKI because economic change is often driven by developments and innovations in financial markets.[17] Some of this evolution is

[14] On the matter of price flexibility at the macroeconomic level, PKI also stresses that even fully flexible wages and prices would not guarantee full employment because of the effects of wage and price reductions on consumer demand and business expectations.

[15] Minsky (1975, pp. 57-58) contrasted his Wall Street paradigm with what he called the barter paradigm of conventional economics, an approach that assumes the central features of capitalism can be grasped without attention to finance, capital assets, and production.

[16] The centrality of money and finance in PKI also has implications for analytical tools and methods of economic research. From PKI's Wall Street perspective, much of the economy can be examined as a set of interconnected financial liabilities, cash-flow commitments, and balance sheets. For example, such a perspective is implicit in the "financial balances" model used by economists at Goldman Sachs to examine the US economic outlook. That model is constructed on a framework—focusing on the gaps between income and spending within the different sectors of the economy—championed by the late Wynne Godley, a Cambridge University economist and Levy Economics Institute colleague of Minsky during the 1990s.

[17] Indeed, as Minsky often stressed, financial structures are features of the economy especially prone to innovation—in response to both the demands of businesses and the entrepreneurialism of financing organizations.

cyclical in nature, and is reflected in post-Keynesian institutionalists' use of Minsky's (1975; 1982) *financial instability hypothesis*. It assumes that, over the course of a period of economic prosperity, conservative "hedge" financing gives way to riskier forms that Minsky called "speculative" and "Ponzi" financing (the latter is named after financial swindler Charles Ponzi), a development that increases financial instability and ultimately ends with a financial crisis, a resetting of economic expectations, and an eventual return to hedge financing.[18] Other financial evolution is longer term in nature and is reflected in post-Keynesian institutionalists' attention, for example, to innovations such as shadow banking (including off-balance-sheet financing) and the shift from relational ("lend and hold") financing to securitized ("originate and distribute") and arms-length financing.[19]

Attention to the integration of finance and macroeconomics also builds on the analytical construct of the financial instability hypothesis, which provides a foundation for post-Keynesian institutionalist analyses of business cycles. Recognizing Wesley Mitchell's (1941, p. ix) observation that "each new cycle presents idiosyncrasies," PKI does not offer a single explanation for all cycles. Still, such economists often find it useful to draw insight from the financial instability hypothesis, which leads most directly to an investment theory of endogenously generated cycles and gives attention to the challenges of coordinating short-term financing (and position taking) with expensive and durable capital assets.

As a result of many decades of institutionalist and post-Keynesian research on finance and macroeconomics, PKI has inherited not just a perspective oriented toward endogenously generated business cycles. It has also assimilated three presuppositions, which are related both to that cycle perspective and to each other: (1) the money supply responds to credit creation, which means the money supply is endogenous; (2) aggregate demand is the main force determining output and employment in both the near term and long term, since the economy's near-term path affects the supply-side determinants of long-run growth (this is what post-Keynesians call the principle of effective demand; see Lavoie, 2022, p. 37); and (3) investment—which is heavily influenced by business expectations—determines saving, rather than the reverse

[18] The financial instability hypothesis is PKI's answer to the mainstream's efficient market hypothesis (which argues that financial markets are efficient and stable). It is with the financial instability hypothesis in mind that post-Keynesian institutionalists often echo Minsky's pithy statement, "Stability is destabilizing."
[19] Post-Keynesian institutionalists have for decades drawn attention to the financial and economic risks associated with securitization and financial derivatives; see, for example, Minsky (1986a) and McClintock (1996).

(again, see Lavoie, 2022, p. 37). Moreover, since the run-up to the global financial crisis of 2007–2009, post-Keynesian institutionalists have used insight from the financial instability hypothesis to highlight household financial insecurity as well as to bring household financing and consumer indebtedness into analyses of the relationship between finance and macroeconomics. Much of this work—which goes well beyond that of Minsky—stresses that widening income inequality is a driving force behind household indebtedness, and that such inequality is both a consequence of and contributor to macroeconomic instability (see, for example, Brown (2008); Kaboub, Todorova, and Fernandez (2010); Scott and Pressman (2019); and Tymoigne (2007)).[20]

A final theme involves examination of long-term trends in capitalist development, with special attention to emergence and evolution of the current economic stage, which developed in the early 1980s and Minsky called *money manager capitalism*.[21] Today, this represents perhaps the central focus of PKI—one that not only connects PKI with some of institutionalism's oldest themes (including attention to stages of history, the legal foundations of economic systems, and overall socioeconomic evolution), but also places its attention on some of the most pressing contemporary issues (including financialization, worker insecurity, and rising inequality). Moreover, what has emerged through attention to this theme is an analytical construct—a (finance-driven) theory of capitalist development rooted in compatible aspects of work by Veblen, Commons, Schumpeter, and Minsky (see, for example, Whalen, 2001)—that has been used to study and explain various facets of the contemporary socioeconomic system in an integrated manner.[22] In fact, while there is more analytical work to be done to better connect capitalism's cyclical and long-term trends, post-Keynesian institutionalists researching cyclical

[20] PKI has also adapted and extended the instability hypothesis into other areas rarely examined by Minsky, including global markets and developing economies (see, for example, Wolfson (2002) and Tavasci and Toporowski (2010), respectively).

[21] For illustrative discussions of money manager capitalism—a concept that contemporary scholars apply beyond Minsky's focus on the United States—see, for example, Correa (2014); Jo and Henry (2015); Liang (in Whalen, 2011, 179-201); Minsky and Whalen (1996); Prasch (2014); Tymoigne and Wray (2014); and Zalewski (2002).

[22] According to PKI, money manager capitalism is an era driven by institutional investors and the pursuit of shareholder value, which has hollowed corporations, contributed to globalization of supply chains, slowed technological progress, increased worker insecurity, intensified inequality of income and wealth, contributed to financial fragility, and exacerbated macroeconomic instability (see, for example, Whalen, 2020b). Exploring, applying, and advancing the theory of capitalist development in post-Keynesian institutionalism is a research project that requires and incorporates investigations into a wide range of subjects, including corporate decision-making, industry structure, labor, finance, law, and macroeconomics. On the co-evolution of law, industry, and finance that produced money manager capitalism (and the stages preceding it), see, for example, Atkinson (2010) and Atkinson and Whalen (in Whalen, 2011, pp. 53-74).

issues have increasingly incorporated work on capitalist development, and vice versa (see, for example, the various contributions to Whalen (2011)).

2.3. Public policy

PKI rejects both *laissez faire* and the mainstream notion that government action is appropriate only in instances of market failure. Instead, PKI rests on the notion of the *creative* state. According to that view, laissez faire is impossible: there is no such thing as a free market. PKI views the government as deeply and unavoidably involved in shaping the economy by fashioning property rights and institutions, and by making and enforcing rules that are always evolving.[23] Moreover, it is not enough to say that government must foster competitive markets; in the real world, market economies can take a variety of forms—government is regularly called on to determine the appropriate nature and scope of competition.[24] In fact, PKI recognizes that government's creative effort can be constructively directed toward a variety of conceptions of efficiency (including, for example, allocative, macroeconomic, or adaptive efficiency) and that public policy is often shaped by other considerations as well (such as social justice).

Since institutions are the true balancing wheel or coordinating mechanism of an economy, public policy takes on special significance in PKI. As Minsky (1986b, p. 7) writes, this means that economic policy "must be concerned with the design of institutions as well as operations within a set of institutions." Moreover, policy can change an economy, but economies also evolve because of other internal and external forces. Given the reality of an ever-changing economy, "There is no magic economic [policy] bullet; no single program or particular reform that will set things right forever" (Minsky, 1986b, p. 293). As the economy evolves, so too must public policy.

[23] As institutional economist Warren Samuels (1989) stressed, making and enforcing an ever-evolving set of rules (in response to competing claims and interests) is a creative, not a corrective, endeavor. Allan Schmid (1999, p. 233), Samuels's colleague, added that the notion of government *versus* markets is misguided; it's always "government, property, markets…in that order." The institutionalism of Samuels and Schmid—which provides a foundation for PKI—rests on the work of Commons (1924; 1934, p. 882), who emphasized that American capitalism is governed by "judicial sovereignty" in that the Supreme Court ultimately decides the constitutionality of law and public policy: "The Constitution is not what it says it is—it is what the Court says it is" (Commons, 1934, p. 697).

[24] The role of government in shaping competition is a key message of Commons (1924). In addition, the state shapes more than just institutions; it also plays a role in shaping—and then determining and acting upon—community preferences.

PKI stresses the importance of studying existing policy institutions and government practices to understand how they function and evolve. But PKI also calls on economists to reimagine those institutions and practices with the aim of achieving socioeconomic reform that improves economic performance and advances the public interest. In other words, post-Keynesian institutionalists should study *what is*, but should also incorporate into their work a vision of *what ought to be* (as long as they are explicit about that vision and the values upon which it rests).[25] And, of course, the two types of research are not mutually exclusive; understanding things *as they are* provides a vital starting point for reform initiatives.[26]

The following are some areas in which post-Keynesian institutionalists have often sought to identify promising reform proposals and innovative policy options:

a. Achieving and sustaining full employment without high inflation;[27]

b. Reducing economic insecurity and income inequality;

c. Supervising and regulating financial markets;[28]

d. Shoring up automatic economic stabilizers;

e. Attending to societal needs by looking at not only the *level* but also the *composition* of public expenditures;[29]

f. Fostering technological economic progress;

g. Curbing corporate power, extending workers' rights, and promoting economic democracy; and

h. Promoting social objectives in the face of financialization.[30]

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[25] Zalewski (2019) provides an excellent discussion of several reform principles often found in the post-Keynesian institutionalist literature.
[26] For an important recent work on the evolution of law and corporate governance and its broad economic consequences, see Atkinson, Hake, and Paschall (2021). It offers a thoughtful starting point for considering the possibilities of (and challenges to) corporate reform in the face of financialization.
[27] For example, a guarantee of public-service employment for the unemployed has long been favored by many institutionalists, post-Keynesians, and post-Keynesian institutionalists.
[28] For PKI, financial regulation aims not only to protect consumers, but also to offset the tendency toward financial instability and crises.
[29] Robinson (1972) offers a forceful case for considering the content, not just the level, of output and employment.
[30] Attesting to the global significance of PKI is the fact that the policy issues listed above reflect problems facing economies worldwide.

In conducting their policy-oriented research, post-Keynesian institutionalists use a variety of empirical techniques, including statistical and comparative methods, system dynamics, and scenario analysis.

Of course, as Peterson (1977, p. 209) recognized, the state can be used for good or ill, and private power often has a hold on public power. In fact, drawing on the work of John Kenneth Galbraith, Peterson suggested that large corporations and other groups with economic power have long sought "to capture state power and subvert it to their private aims." This leads to the dark side of the creative state, which James K. Galbraith (2008, written at the suggestion of his father, John Kenneth Galbraith) calls the predator state.

According to James K. Galbraith (2008, p. 147), public-sector predation occurs when economic and political pressure from the private sector results in government officials who do not recognize the public interest and instead manage the public sector to serve private interests. In a predatory regime, he explains, the people in charge "have friends, and enemies, and as for the rest of us—we are the prey." It comes as no surprise that decades of financial-sector deregulation constitute one illustration of public-sector predation offered by Galbraith: Money manager capitalism did not just emerge and spread on its own; it was helped along as financial elites used their influence to shape public policies in ways that furthered their own private interests.[31] Recognizing, exploring, and devising ways to curtail the predatory side of the state, which has become more visible and consequential in the money manager era, are essential aims of contemporary PKI.[32]

2.4. PKI and Carvalho

Recognizing the important contributions of Fernando Cardim de Carvalho to post-Keynesian economics and to heterodox economics in Brazil, this section on the contours of PKI closes with a discussion of how PKI relates to the post-Keynesianism of Carvalho. Of course, we must give attention to common ground between Carvalho's economics and PKI, but we begin by describing how a look at his research helps us understand PKI in relation to post-

[31] For an extensive discussion of the policy-driven dimensions of wage suppression and inequality in the United States, see Mishel and Bivens (2021).

[32] The tension between the constructive potential of the creative state and the dark forces of predation is inescapable; the state is inevitably a terrain in which competing groups "assert the legitimacy of their rights and freedoms" (Brown, 1992, p. 13).

Keynesian economics overall. Post-Keynesianism has long been recognized as having several strands, and Carvalho tried from the start of his career to bring clarity and coherence to the tradition. His efforts at clarity and coherence are both relevant to understanding PKI.

To bring *clarity* to post-Keynesianism, Carvalho (1984) identified five different approaches to post-Keynesian theory, each with its own perspective on evolutionary economic processes over time. They are: 1) the Garegnani/Eatwell approach,[33] which focuses on long-run equilibrium positions described as static centers of gravity; 2) the Kaldor/Pasinetti approach, which sees long-run growth rates as moving centers of gravity; 3) the Kaleckian approach, which focuses on short-run cycles around a long-run trend; 4) the Davidson/Kregel/Minsky approach, which emphasizes historical time and uncertainty; and 5) the Shackle approach, which also emphasizes historical time, but concentrates on the moment of decision-making.[34] The PKI tradition is grounded solidly in the historical time approach (number four above), so Carvalho's categorization helps shed light on the nature of the intersection between post-Keynesianism and PKI.[35]

The post-Keynesian historical time approach is also the approach most in line with the view of Keynes, who famously wrote, "In the long run, we are all dead" (Keynes, 1923, p. 80). As Carvalho (1984, p. 230) writes:

> The alternative starting point [of Keynes] states that life happens in some sort of "short run." The investment process, in particular, *freezes* expectations formed under uncertainty conditions into *long run* data. This destroys the stability required by equilibrium situations to become gravity centers. Therefore, there is no separate space/time in which long run forces assert themselves independently of short run occurrences. Short run acts permanently imprint their character in the long run paths, making it impossible to develop a theory of the latter that is invariant to what happens

[33] That approach is also often considered Sraffian or neo-Ricardian.

[34] Carvalho (1984) recognizes that Robinson and Eichner do not fit neatly into his categorization. Although they both stressed the importance of historical time, each occasionally devoted some attention to long run forces, albeit as dynamic potentialities rather than static tendencies. (In the same article, Carvalho also suggests that some of Kalecki's work was of a similarly eclectic nature.)

[35] Unlike the Davidson/Kregel/Minsky approach, the Shackle approach is less than a perfect fit with PKI because of Shackle's "absence of references to the social environment that surrounds each individual, [and that shapes] his limits and interrelations with other individuals" (Carvalho, 1984, p. 227). In fact, elsewhere Carvalho (1983, pp. 269-270) describes the Shackle approach as "radically individualistic and subjectivistic" like that of Austrian economics. This is not the case in PKI. And on this matter, what Carvalho (1992, p. 29) wrote about Keynes is equally true of PKI: Although Keynes's economics "had to take into consideration 'motives and behaviors' of individuals, it was not conducive to an extreme methodological individualism along Austrian lines. Order and social organization are essential elements of Keynes's vision, as much as uncertainty and individual freedom. To a large extent one can see Keynes's economics as an attempt to reconcile these two elements, order and freedom, without surrendering to either one of them."

> in the former. … The economy has, therefore, to be approached in terms of historical time.

Since what Carvalho describes in that passage is also the viewpoint of PKI, his effort to bring clarity to post-Keynesianism doesn't merely help us understand PKI in relation to that tradition: it also underscores attention to historical time as a foundational commonality of PKI and the economics of Keynes.

Carvalho's effort to bring *coherence* to post-Keynesianism sheds further light on that tradition's correspondence with PKI. In *Mr. Keynes and the Post Keynesians*, Carvalho (1992, pp. 3-13) brought coherence to post-Keynesianism by using Keynes's starting point as his own. After publication of *The General Theory*, conventional economists tried to take Keynes's insights and observations and interpret them in the context of standard theory—as though Keynes shared "the same premises as orthodox economics" and differed only in terms of "the value of the relevant parameters." But Carvalho stresses that Keynes had a different aim: to devise an alternative to the inadequate *foundations* of mainstream economics and construct a more realistic economic theory upon that new groundwork. In other words, Keynes wanted an "alternative paradigm"—rooted in a distinctly different pre-analytic vision—one more appropriate for use when analyzing the monetary production economies of the capitalist world. *Mr. Keynes and the Post Keynesians* presents Carvalho's interpretation of that alternative paradigm, and the agreement with PKI is striking.

One way to underscore the correspondence between Carvalho's post-Keynesianism paradigm and PKI is to observe that much of PKI is inspired by two AFEE presidential addresses delivered in the 1970s: Peterson (1977) and Dillard (1980). Peterson identified several common emphases in institutionalism, Keynes, and the post-Keynesians, including historical time, uncertainty, ongoing economic change, institutions (especially money and financial institutions), power relations, endogenous capitalist instability, and the need for public action to stabilize the economy and address concentrations of wealth and power. Then Dudley Dillard stressed that Keynes and major institutionalists, including Thorstein Veblen and Wesley Mitchell, shared a common research goal: to produce a monetary theory of production as an alternative to conventional economics. While the goal and emphases identified by Peterson and Dillard are evident in the contours of PKI laid out in this article, they are also manifest in Carvalho's classic book (Carvalho, 1992).

Common ground between Carvalho's economics and PKI can likewise be seen by considering each of the following aspects of his work: the "principles" of a monetary economy, the incorporation of insights and concepts from Minsky's "financial Keynesianism," and the role of government. Carvalho's theory is built upon six principles (Carvalho, 1992, pp. 43-53), which stress the following features of capitalist economic processes: temporality (production precedes sale and finance precedes production), uncertainty, absence of a central coordinator, the liquidity of money, production by firms to accumulate money (wealth), and the differentiated powers of economic agents (with banks and firms in dominant positions regarding investment and production decisions). The same features are found in post-Keynesian institutionalist analyses of macroeconomics and capitalist development.[36]

The features just described lead Carvalho and post-Keynesian institutionalists to a macroeconomic theory in which effective demand plays a central role. For Carvalho (1992), Keynes's writings provide essential clues to the construction of such a theory, but Minsky also provides both Carvalho and PKI with vital insights and concepts. For example, Minsky—who wrote a book interpreting Keynes's *General Theory* and called himself a "financial Keynesian"—contributed the notion of a Wall Street paradigm (discussed above), a conception of the investment process (combining expectations and assessments of risk), and analyses of financial fragility and systemic crises, which are each incorporated into the post-Keynesianism of Carvalho (1992; 2015) as well as into PKI.[37]

On government and public policy, the post-Keynesianism of Carvalho and the overall thrust of PKI both reflect the shared aim of Keynes and Commons, which was to achieve a more humane and wisely managed form of capitalism. According to Carvalho, the goal of post-Keynesianism is to reform capitalist economies in a way that makes its institutions "more efficient and fair," consistent with Keynes's conservative goals of preserving private property, the market, and individual decision making, but also with his innovative intention of substituting

[36] The features highlighted by Carvalho are incorporated into the discussion of PKI above, but also see Whalen (2008; 2011).
[37] Carvalho, who regarded his post-Keynesian macroeconomics as an interpretation of Keynes's liquidity preference theory (Carvalho, 1992), described Minsky's financial instability hypothesis as "an elaboration of liquidity preference" (Carvalho, 2015, p. 105).

"conscious economic management" for the blind acceptance of unregulated markets (Carvalho, 1992, pp. 206, 220). Post-Keynesian institutionalists have often described the same type of goal.[38]

Carvalho's discussions of policy instruments and their use also correspond with what one finds in the post-Keynesian institutionalist literature. In *Mr. Keynes and the Post Keynesians*, Carvalho (1992, pp. 212-221) highlighted coordinated use of fiscal, monetary, and incomes policies to sustain aggregate output at full employment, reduce income inequality, control inflation, and accommodate the demand for money while preventing financial crises. In the more recent *Liquidity Preference and Monetary Economies*, Carvalho (2015, pp. 108-112) added a post-Keynesian strategy for preventing systemic financial crises. According to that strategy, which begins by recognizing that financial markets cannot depend on industry self-regulation or private-sector entities such as rating agencies, government regulators must monitor the entire financial system (not just banks) for systemic risks; control leverage and maturity mismatches between assets and liabilities; preserve margins of safety; and constantly update regulations in the face of incessant financial innovation and economic-system evolution. Of course, the details are always important when shaping policy, but in general post-Keynesian institutionalists would endorse the policy elements found in both of Carvalho's books.[39]

3. Frontiers

The methodological, analytical, and policy contours of PKI described in this article demonstrate that the tradition has accomplished much over the past few decades. But post-Keynesian institutionalists endeavor to keep up with an ever-changing economy. To that end, an international group of scholars has recently pursued a concerted effort to explore and even expand the frontiers of PKI.

3.1. *A Modern Guide to Post-Keynesian Institutional Economics*

In a research volume published in 2022, more than a dozen economists helped to advance PKI by contributing to *A Modern Guide to Post-Keynesian Institutional Economics* (Whalen, 2022b). The book's first section extended analyses and explorations of money manager

[38] In addition to the discussion on public policy in section 2.3 above, see Whalen (2008).
[39] For example, compare Carvalho's policy views (Carvalho, 1992, pp. 212-221; 2015, pp. 108-131) with the post-Keynesian institutionalist perspective outlined by Whalen (2010, pp. 249-255).

capitalism, including chapters on its emergence (by David Zalewski), the relationship between financialization and employment insecurity in the United States (by Avraham Baranes), and the shortcomings of the current era revealed by the coronavirus pandemic (by Yan Liang and Charles Whalen). The second section aimed to sharpen post-Keynesian institutionalism's concepts and methods, including chapters on social capital and civil society (by Asimina Christoforou), economic democracy (by Anna Klimina, who focuses on how that concept could be used to shape reform in economies of the former Soviet Union), the monetary circuit (by Alicia Girón, who applies that concept to Latin American development), and stock-flow consistent modeling (by Marc Lavoie).[40]

The final section of *A Modern Guide* proposes theories and syntheses with related heterodox traditions. The discussion of theories includes a post-Keynesian institutionalist framework for analyzing labor markets (by Eduardo Fernández-Huerga) and a theoretical explanation of the cyclical pattern of financial regulation (by Samba Diop). Other chapters highlight opportunities to synthesize PKI with feminist economics (by Anna Zachorowska-Mazurkiewicz) and ecological economics (by Charles Whalen).[41]

3.2. Analyzing and transcending precarity

A key topic at the frontiers of PKI is precarity. Today, many use the term "precarity" in reference to the serious problem of employment insecurity in the age of money manager capitalism; but rapidly rising prices can also create a precarious situation—especially for low-income households—and in recent years inflation has surged in many nations at a pace not seen since the early 1980s. Meanwhile, the existential threat posed by global warming represents the most fundamental form of precarity. Going forward, these are just some of the dimensions of precarity that deserve to be analyzed by post-Keynesian institutionalists and addressed by nations and the international community.[42]

[40] Stock-flow consistent models, which derive mainly from the work of Wynne Godley, embody a flow-of-funds analysis that connects them to institutionalism and PKI. A similar focus on balance sheets is also found in the neo-chartalist economics that some today call modern monetary theory, which at least partly overlaps with PKI owing to a shared interest in detailed analyses of monetary institutions and processes (Lavoie, 2022, p. 44).
[41] The chapter by Zachorowska-Mazurkiewicz builds partly on the gendered post-Keynesian institutionalist analysis of Todorova (2009).
[42] For examples of constructive recent work on inflation from perspectives consistent with post-Keynesian institutionalism, see Jo (2022); Galbraith (2023); and Watkins (2023).

4. Conclusion: PKI in an ever-changing world

Confronted with the reality of an ever-changing world, PKI must always be a work in progress. But post-Keynesian institutionalists embrace that inevitability. Their work to date indicates not only adeptness in the face of socioeconomic evolution, but also an ambitious agenda for further research.

Although PKI began in the United States, it has quickly become a research tradition with global reach. Its concepts and analyses are used by economists in many parts of the world, and have been applied to advanced market economies, emerging economies, and even nations practicing state capitalism.[43] That attention reflects a growing recognition of the global scope of the issues that have long been central to PKI, including financialization, financial instability, economic inequality, and worker insecurity. The attention is also a consequence of efforts by post-Keynesian institutionalists to explore and advance their tradition's research frontiers, which has included forging links to other economic traditions and taking on vital issues often neglected by many economists, including environmental degradation and climate change.

Economic systems are social entities, not natural systems. Thus, the future, regarding both economics and the economy, is in our own (collective) hands. By studying real-world social provisioning and the avenues available for institutional reform, and by aiming to develop a robustly international research program, post-Keynesian institutionalism contributes constructively to our fashioning of that future.

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[43] In addition to the literature cited elsewhere in this article, see Girón (2018) and Bahtiyar (2020) for illustrations of PKI's global reach.

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