Chapter 4
A Minsky-Levy-Kalecki Model

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ABSTRACT

The authors add the monetary insights of Hyman Minsky to the 'real' Kalecki-Levy equation. The latter is embedded in the economics of Keynes and the former is expanded in the spirit of Minsky. They present their structural connections in a four-quadrant diagram as well as within a stock-flow-consistent model. The motivation arises from history and the revitalisation of the real bills doctrine. Accordingly, they make the case for the productive monetary emissions of a central bank acting in concert with the community of commercial banks. They define money as the emission of credit in the 'first moment' of the circuit. It is simultaneously the wage bill. Workers will consume basics and are free to prefer liquidity in the form of bank deposits. The latter they label cash or currency and a firewall separates it from money. The objective is the increase in output and employment called upon by the milieu in all countries of the world in which the 'dark forces' of uncertainty and pessimism have taken over. The policy stance is embellished by the introduction of central bank digital money.

INTRODUCTION

The introductory lecture in macroeconomics introduces the student to the breakup of GDP into consumption goods and investment goods. Thereafter, a representative agent is assumed to drive the consumption stream by maximizing her utility over time. Income not consumed is saved and then invested. Bounded rationality might be introduced and, lately, agents are behavioral in the models. Macro is founded on micro. Michal Kalecki drew attention to the dual breakup of national income into wages and profits. Backing each are classes this time, wages and capitalists that connect with the data. The connection with the textbook division of GDP into consumption and investment is the subdivision of the former into the consumption of Basics by the working class and the consumption of Luxuries by the capitalist class and, correspondingly, the division of the Investment Goods Department into capital goods used as inputs in Basics and Luxury Goods production respectively. The research programme is progressive as scholars worry about the collapsing of both classes into a rentier class. Workers who cannot find jobs are forced to flip their miniscule assets. Capitalists find it more lucrative to speculate in financial markets rather

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than produce and invest in the goods market. The aggregates are manipulated to derive theorems like the realization problem of Marx or, equivalently, the problem of effective demand of Keynes.

Money in Kalecki was implicit, at best, with no more than the rate of interest figuring in the development of the theory. However, the identical starting point above is the launching pad of the theory of the monetary circuit actively researched mainly in Italy and France (Cencini, 2017, is a summary in a festschrift to Bernard Schmitt, the pioneer of a school in France). In short, the macroeconomic identity referred to must be underwritten by the advances of money that back the wages paid out to workers that produce goods and services (Mallorquin, 2019). The circuit is opened by the visit of the manager of a firm to a bank or a bank that ferrets out a profitable idea from the population of entrepreneurs and pursues it. New schemes or novel ways or green technologies will not possess probability distributions nor meet credit norms. Indeed, capital adequacy norms like those of Basel II have acted as an incentive opposite to truth telling as banks subvert them to preserve their bottom lines (Goodhart, 2018).The bigger the banks the harder they are falling in our times and the handshake between local and community bank manager and the environmentally-kind businesswoman, for instance, must be strong. In the Minsky archives at the Jerome Levy Institute in New York, numerous jottings will be found where the skills of scrutiny and audit of the bank manager are emphasized. When the credit line is drawn upon through an overdraft facility, the "first moment" in the circuit is initiated in the terminology of Schmitt. Production takes place and Basics, goods consumed by workers in the production process, are sold. The "second moment" is concluded. The sales circle back as revenues to firms who proceed to repay their loans to banks. The "third moment" is the closing of the accounts. The savings of workers and the financing of capital goods must be recorded in separate accounts in banks or financial institutions. Nothing in the account predisposes the adjunct 'commercial' or 'central' to the bank. In fact, Central Banks (CBs, hereafter), relatively young entrants on to the arena of production and finance, emerged from the community of commercial banks of longer standing as a result of the exigencies of extraordinary circumstances like the aftermaths of wars. CBs were leaders of the pack of banks and the connection between the two remained intimate and constructive, devoted to the joint primary task of screening and monitoring the writing up and drawing down of credit balances.

Returning to our macroeconomic identity, we observe the secular decline of the wage bill. Both its components, the wage rate and the number of workers have been on a steady downward trend for decades. Reverting to aggregate output, the left-hand side, nations worldwide are working far below their production possibility frontiers both in terms of levels and annual rates of growth. The conclusion is that profits from the production of goods and services, the remaining element on the right-hand side, must also be inefficiently low and not growing. Thomas Piketty lumps profits and rents in his popular book. However, rents are a drag on aggregate output and are best conceptualized independently (Vahabi, 2019). Modern capitalism is a "re-feudalization" rather than the next stage of classical capitalism. The top 20% or the upper middle class anywhere are a "new nobility" or "dominant rank or elite". The egalitarian measure of a tax on inheritance or capital gains stares the policy maker in the face. Kalecki made the case for a tax on Inessentials or Non Basics. Consequently, the contribution of Jerome Levy to the Kalecki identity, breaking up profits into distributed profits and retained profits, is salutary. The former is dividends to shareholders, the latter is for the ostensible purpose of ploughback into fresh investment plans. The first in the form of share buybacks as part of a financial circuit has taken on a life of its own as the arbitrage principle joins production firms and financial firms. The depletion of the second as the propensity to invest has correspondingly deteriorated has long been a driver of critiques of the "shareholder value maximization" model. Incentives get distorted when stock options reward managers

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