Macroeconomic models after the crisis in the tradition of heterodoxy

Yoshikazu SATO
Hosei University

Abstract

The oft-cited (or timeworn already) expression after the financial crisis was “We are in the midst of a once in a century credit tsunami.” and/or “This time is different.” Needless to say, the capitalist economy has experienced a cyclical movement for about two centuries. The normal course of the capitalist economy closely resembles “a roller coaster.” Crisis is not a peculiar event, but an ordinary one. However, many argue we have to explore the “novelty” of this financial crisis. If this time is different, the reason why the recent crisis is different must be explained. Many academic journals from the orthodox camp to heterodox featured the (global) financial crisis. There are a wide variety of opinions expressed on this matter. When we discuss on the causes of the crisis, I believe one of the fundamental issues would be how to formulate the relationships between the real sector and the monetary sector, or how to interpret the so-called ‘financialisation,’ and to evaluate its effect on the real sector. Keeping this point in mind, several approaches will be examined.

This paper is structured as follows. Section 2 summarizes two simple macro models: New Consensus model (e.g. Romer, Taylor) and Post-Keynesian model (e.g. Fontana, Setterfield). Section 3 examines the causality of the model above and their interpretation of the crisis, based on their model. As is well known, many heterodox economists have tried to present alternative explanations of the current crisis (e.g. Boyer, Crotty, Davidson, Dumenil=Levy, Dymski, Kotz, Palley, Sherman). Section 4 reconsiders the characteristic of heterodoxy, and to explore the requirements for the model, which could clarify the causality of recent events as simple as possible. Some concluding remarks will be given in the last section.

1 Prepared for 60th Annual Conference of JSPE (the Japan Society of Political Economy), 2012.
2 Email address for correspondence: ysato@hosei.ac.jp
4 It is the title of the book written by Reinhart and Rogoff (2009).