The real barrier of capitalist production is capital itself. (Karl Marx 1967, III: 250)

Introduction

Kalecki and Keynes share honors for discovering the principle of aggregate demand. But whereas Keynes set out this principle in a static model expressed in Neoclassical language, Kalecki explored it in a disequilibrium dynamic model incorporating Marxian and Classical insights about class conflict and income distribution. Geoffrey Harcourt has characterized Kalecki's writings as 'the most profound of the twentieth century' (Harcourt, 1987). Nonetheless, Kalecki has exerted less influence than Keynes, even among heterodox economists.¹

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This essay examines Kalecki’s monetary economics from a Post Keynesian perspective, and finds this neglect unwarranted. Kalecki’s period approach to firms’ microeconomic behavior sheds new light on the contemporary debate over the importance of finance constraints. Further, Kalecki’s principle of increasing risk both foreshadows New Keynesian credit rationing models and also exposes limitations in the New Keynesian approach. Kalecki’s investment/profit model suggests how real-sector forces can be integrated into Minsky’s financial cycle model. Finally, Kalecki’s conceptions of the links between micro and macro analysis, and between finance and power, are important for contemporary debates. In sum, Kalecki’s monetary ideas suggest ways of bridging the gaps between what Harcourt and Hamouda (1992) call the three strands of Post Keynesian economics, and hence of countering these strands’ fragmentation into mutually appreciative but non-intersecting discourses.²

Monetary Themes in Kalecki’s Model of Capitalist Dynamics

Scholars are in broad agreement that Kalecki’s monetary approach is underdeveloped (see, e.g., Kregel 1989; Kriesler and McFarlane 1993; Sawyer 1985a). Osiatynski observes:

Kalecki’s [monetary] assumptions require modification. On the one hand, changes in the supply of and the demand for finance capital are determined by factors which are not fully allowed for in his theory. On the other hand, those changes determine the investment decisions of the private sector in a more complex way than Kalecki has postulated. (Osiatynski 1986, 19; bracketed word is added)

We might add that monetary concepts seldom appear in Kalecki’s mature writings; when they do, the author treats them sparingly. For example, in the various permutations of Kalecki’s dynamic investment model, financial elements are incorporated only partially, and the banking system consistently plays a passive role.³ But is this treatment, as Osiatynski suggests, due to the partial-equilibrium character of Kalecki’s model,⁴ or does it instead reflect disinterest in monetary phenomena - or even a judgement that these phenomena are second-order?

Kalecki’s early writings on capitalist economies demonstrate his appreciation of monetary issues, and suggest that the paucity of monetary elements in his formal model(s) reflects a strategic choice. In ‘The world financial crisis’, written in 1931, Kalecki demonstrates his acute awareness of the causes and consequences of the collapse of financial asset prices, and of the loss of public confidence in banks and/or national currencies. In ‘Mr. Keynes’s predictions’ (1932), Kalecki comments critically on Keynes’