



Paris OECD,  
26 September 2019

# MICHAŁ KALECKI

## *and the Problem of International Equilibrium*

conference organized by the Permanent  
Representation of the Republic of Poland  
to the OECD and Polish Economic Society

### Michał Kalecki: A Pioneer of Modern Macroeconomics

Born in Łódź on 22 June 1899 Kalecki grew up in a Jewish family. In 1913, he witnessed the bankruptcy of his father's spinning mill and, in 1925, of his uncle's large shipping company where his father had worked after losing his own business. Kalecki had to discontinue his studies at Gdansk Technical University and return to Łódź to support his father financially.

Self-taught in economics, in 1927 he moved to Warsaw where he earned his living partly by regularly publishing business reviews in Polish economic periodicals. In 1929, he got a permanent job at the Institute for the Study of Business Cycles and Prices in Warsaw. In 1933, the Institute published his *Essay on the Business Cycle Theory* in which he not only laid the theoretical foundations for the cyclical nature of capital accumulation, but also — together with his other papers — set out the core of what was later recognized as his original version of the theory of effective demand.

In late 1935, he got a Rockefeller fellowship and shortly after publication of Keynes's *General Theory of Employment* he moved to London, where he met Keynes, Joan Robinson and other members of Keynes's inner circle.

In 1939, Kalecki published *Essays in the Theory of Economic Fluctuations*, which focused on filling gaps in Keynes's short-term theory, on its refinement and statistical corroboration, and on integrating it with his own theory of business cycles. The book earned Kalecki the status of Keynes's student and follower, although in fact he was a parallel author of the theory of effective demand (which in fact was acknowledged only after Keynes's death).

During the Second World War Kalecki worked at the Oxford University Institute of Statistics, which gave shelter to many economists who

had escaped fascism in their native European countries. He soon became the Institute's guru in its research and publications on the British war economy and on ways to secure full employment in the course of post-war reconstruction and beyond. In 1943, he published his *Studies in Economic Dynamics* in which he combined his business cycle theory with long-run growth.

From the end of 1946 to the end of 1954 he worked as Assistant Director at the Economic Department of the UN Secretariat in New York, supervising annual reports on inflationary and deflationary tendencies, reports on full employment policies, but first and foremost the annual World Economic Report series. In 1954 his *Theory of Economic Dynamics: An Essay on Cyclical and Long-Run Changes in Capitalist Economy* was published. In the atmosphere of McCarthyism and with his responsibilities at the UN Secretariat increasingly limited, he resigned from his job in the UN at the end of the year and returned to Poland to assume a high-ranking advisory position to the Government in the Planning Commission.

In his work on a centrally planned economy, Kalecki concentrated on problems of annual and long-run plans of Poland's development, on proportions of growth of investment and consumption, and on a system of economic management that would harmonize central planning with market mechanism measures. This work gave rise to his 1963 *Introduction to the Theory of Growth in a Socialist Economy*. Criticizing the voluntary setting of overambitious economic growth rate targets, Kalecki's advice was increasingly ignored by the political authorities, eventually leading to his resignation from his job.

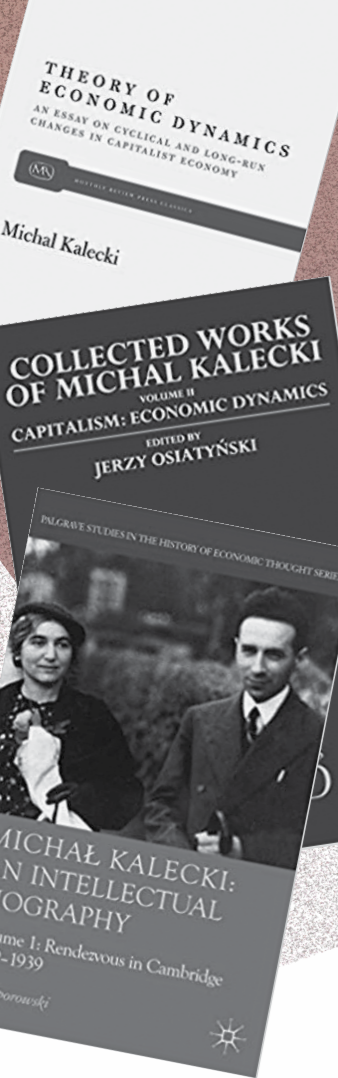
Kalecki's academic and policy influence did not last long. Political infighting in the leadership of the Polish communist party in 1967-68 were intertwined with anti-Semitic motives. Many of Kalecki's friends and collaborators were dismissed from their jobs, some were forced to

emigrate. Kalecki's economic theory was heavily criticized in a series of politically orchestrated conferences. Kalecki considered the argument presented in the conference papers of his critics: "verbose, vague, and their economic reasoning [of] low standard". Following these developments, Kalecki once again submitted his resignation and took early retirement. In a couple of months, his school of thought ceased to exist. On 18 April 1970, he passed away.

Whatever economic system Kalecki dealt with, his main concern was full employment and the policies necessary to achieve and maintain it. From the viewpoint of this conference, two conclusions quoted from his paper *Multilateralism and Full Employment* seem especially pertinent: [...] *there are two alternative conditions which make certain the smooth functioning of a multilateral system of international trade:*

(a) *that each country should maintain full employment based on domestic expenditure and on net foreign expenditure financed by international long-term lending;*

(b) *that the level of current long-term lending from 'not fully employed countries' should be sufficiently high (this alternative may in some cases coincide with the first one [...]). If this condition is not fulfilled, 'full employment countries' may experience difficulties in balancing proceeds and outlays of foreign exchange, and this will always be the case if employment in major industrial countries is subject to significant fluctuations. If [...] these difficulties [...] are not overcome by an expansion of current international long-term lending from 'not fully employed countries,' a breakdown of pure multilateralism and its replacement by another system of international trade is unavoidable.*



## Kalecki's Quotes

- Development distortions are not limited to a capitalist economy only. We have also built a few factories that do not fit to anything (on socialist planning)
- Capitalists earn what they spend, [while] workers spend what they earn
- An increase in the number of paupers does not broaden the market
- A trendy tie would not do when you cannot afford a shirt (on underdeveloped economies).
- When you are oil-rich, even econometricians will not ruin your economy

## The Rationale of the Conference

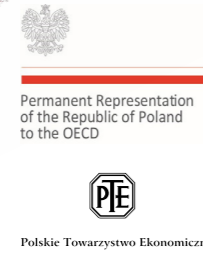
Michał Kalecki (1899-1970) was a distinguished and world-renowned Polish economist who, in 1933 alongside John Maynard Keynes, laid the foundations of what became known as the Keynesian Revolution.

One of Michał Kalecki's fields of interest was the relationship between multilateral trade and full employment policies. This issue continues to be of relevance today when we are analyzing the global economy from the perspective of an international equilibrium. This question had been discussed among the experts that founded the Bretton Woods Institutions exactly 75 years ago and is within the OECD's scope of interest. The conference, celebrating Kalecki's 120 birthday, will focus on the problems of handling structural imbalances in current accounts, including in developing countries. It will also touch upon the issue of full employment policies and the role of structural reforms in promoting them.

**Call for papers:** Please send your abstracts (max. 300 words) before Friday, June 21, 2019 to: [paryz.oecd.sekretariat@msz.gov.pl](mailto:paryz.oecd.sekretariat@msz.gov.pl)

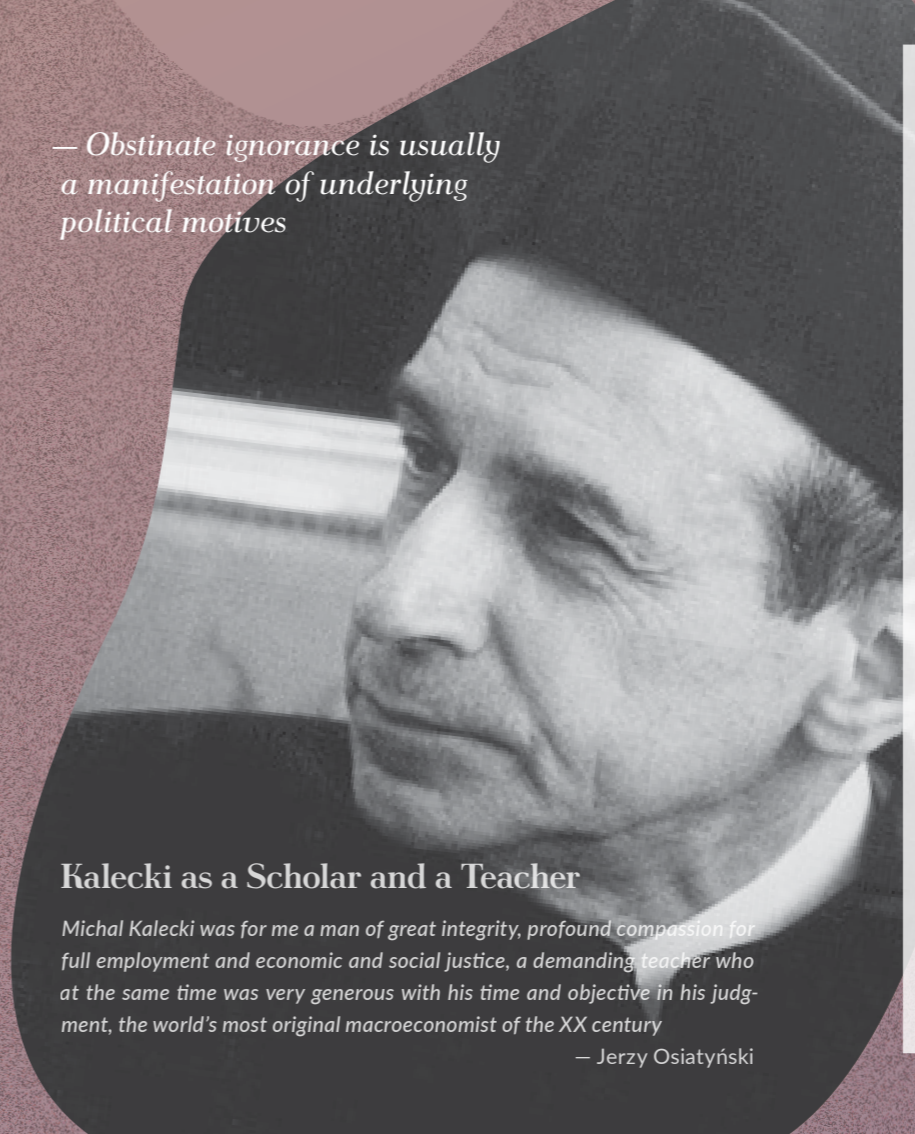
## Key Note Speakers

- Jerzy Osiatyński, *Economics of Michal Kalecki and its Relevance To-day.*
- Stephany Griffith-Jones, *International Equilibrium – the Outstanding Challenges.*
- Jan Toporowski, *International Debt Problem.*
- Esteban Perez, *The Prebisch – Kalecki UNCTAD debate.*
- Peter Clarke, *The Keynes and White Plans at Bretton Woods.*



Polskie Towarzystwo Ekonomiczne

– *Obstinate ignorance is usually a manifestation of underlying political motives*



## Kalecki as a Scholar and a Teacher

*Michal Kalecki was for me a man of great integrity, profound compassion for full employment and economic and social justice, a demanding teacher who at the same time was very generous with his time and objective in his judgment, the world's most original macroeconomist of the XX century*

– Jerzy Osiatyński

## Main Tenets of Kalecki's Theory of Economic Dynamics and Business Fluctuations

The capitalist economy operates, as a rule, below the capacity use of factors of production, and the market mechanism, left to itself, is unable to achieve and maintain full employment. The free competition assumption is rejected and oligopoly price fixing by producers of manufactured goods and of services rules. These two assumptions make the aggregate supply function close to horizontal (unit prime costs constant or only slightly rising) within the "normal" range of changes in the volume of output and employment; in the neighborhood of full employment, it sharply rises.

The theory of income distribution according to marginal productivity is rejected and replaced by the class-conflict theory of distribution based on his concept of "degree of monopoly" that represents the competitive structure of the market.

Economic dynamics and business fluctuations are determined by changes in private investment, which through his fundamental profit equation and his theory of income distribution are functionally linked to changes in output and employment. Investment decisions are in turn a complex function of expected profits and of the degree of employment of the existing capital stock. As a rule, the income-generation effect of private investment when they are under construction is insufficient to achieve and maintain full employment. Therefore, in the absence of an export surplus, full employment requires government intervention through either (I) tax or other measures that stimulate private investment, or (II) debt-financed public spending financed, or else (III) redistribution of income to low-earning and therefore low-saving households.

To what extent these policy recommendations are viable in the present-day, international finance-dominated capitalist system is an open question much discussed by Post-Keynesians and Post-Kaleckians.