Two Enigmas in Kalecki's Methodology

Jan Toporowski*

Summary

Kalecki's writings reveal a unique style of analysis and exposition of ideas. His theoretical essays are contributions to theory with very little explicit reference to the theoretical debates of his time and to the tradition of economic thought which they sought to continue. At the same time, at critical points in his analysis, Kalecki's argument is moved by explicitly empirical, rather than theoretical considerations. An examination of his way of working suggests an intuitive deductive way of drawing conclusions from his ideas. However, when this style of work is viewed in combination with its empirical content, and the chronological schedule of his contributions to economic theory, it becomes clear that Kalecki's analysis is essentially an empirical deductive one that is similar to that used by the classical economists, Ricardo and Marx. This explains the absence of any explicit theoretical nexus, and the importance of empirical considerations in his theoretical discourse.

1.

The standard format for a contribution to economic theory is to start with an expose of a theoretical or empirical anomaly in some existing economic theory. A set of assumptions are made which are then contraposed to those of the theory that is being criticised or extended, and conclusions are drawn logically from those assumptions. The stage from the statement of assumptions to the conclusions drawn from them follows the standard procedure laid down by Keynes (although not always followed by him) for the contributions to the *Economic Journal* which he examined as editor (Kriesler 1988).This is the basic structure of modern papers on economic theory. Their content may differ, but it is their common structure that affords the profession the illusion or reality of debate within it. Theorists who do not submit their ideas for discussion in this form effectively fall out of the mainstream of theoretical debates and become marginalized. In addition to Kalecki, John Kenneth Galbraith and (to show that it is not just on political grounds that contributions to theory are excluded) Friedrich August von Hayek spring to mind as economists whose positions are not found in the main theoretical debates in economics, in spite of the undoubted subtlety and relevance of their ideas, and their essayist's skills.

The standard format of Kalecki's theories is very different from this common norm. Kalecki starts off by *defining variables* and then expounding the relationship between those variables. This is very apparent in his two sets of selected essays on capitalism and socialism, each of which he clearly regarded as constituting an *integrated* theory or explanation of what he regarded were the key economic phenomena of the two societies, namely production, distribution and the trade cycle in capitalism, and growth, consumption and investment in the socialist society. This was also the procedure which he followed in his theoretical analysis of development economics, but it is rather less obvious since, although his understanding was no less profound, his theoretical writings in this respect are not as well integrated (Kalecki 1971, 1972 and 1976). Keynes made the following observation on Kalecki's method of theoretical exposition in the latter's 1939 collection of *Essays in the Theory of Economic Fluctuations*, which eventually became Kalecki (1971):"His device of making bold, and perhaps precarious simplifications in his analysis on the basis of alleged statistics and *then* beginning his theory (instead of working theory on general lines and making simplifications afterwards) is very interesting and, if one minds one's step and remembers where one is, useful and illuminating. The flavour of him is very peculiar - very subtle, very aesthetic and complete within its own field..." (Quoted in Kriesler 1988).

The remainder of Kalecki's economic analyses are his applied work, empirical studies, and contributions to policy debates and, what is relevant in this context, a small group of essays on the economists who had influenced him, Rosa Luxemburg, Michael Tugan-Baranovsky, and some who he had known, Ludwik Landau, Erwin Rothbarth, Oskar Lange and Edward Lipinski (Kalecki *Collected Works vols. II and V)*.

In Kalecki's methodology therefore a certain *theoretical* enigma can be identified. This arises from his not clearly placing his analysis in the context of the theoretical debates and tradition to which he was contributing. The evidence for this is not just in the structure of his argument, but in the extreme paucity of references in his work, except where the source of empirical data is referred to. G.D.N. Worswick, who worked with Kalecki in Oxford during the War, told this writer that Kalecki's diffidence in this respect gave rise to jocular speculation among his colleagues as to whether he had read any theory at all. This impression of dissociation from mainstream economic theory is also borne out by the fact that Kalecki's lectures in later life when he was a Professor at the Main School of Planning and Statistics in Warsaw, according to one of his students at the time, J. Osiatynski (who went on to edit Kalecki's *Collected Works*) consisted of expositions of his own theories on a particular topic, rather than comparisons of the theories of various schools of thought on those subjects.

Where Kalecki did speak directly to the debates on theory in his adopted profession, his mode of address was insouciant and hardly scholarly, usually in the form: "This is what is said, but in practice that happens which can explained as follows". For example, in his paper "Entrepreneurial Capital and Investment", Kalecki only mentions the conventional wisdom among economists on the question of firm size twice. At the very beginning, he states "Two factors are usually mentioned as limiting the size of the firm: (1) dis-economies of a large scale; and (2) limitations of market, the expansion of which would require unprofitable price reductions or increases in selling costs. The first of these factors seems to be rather unrealistic ..." In the conclusion to his paper, he summarily dismisses this view again: "Many economists assume, at least in their abstract theories, a state of business democracy where anybody endowed with entrepreneurial ability can obtain capital for starting a business venture. This picture of the 'pure' entrepreneur is, to put it mildly, unrealistic..." (Kalecki 1971 p. 109).

Nevertheless, Kalecki's theories are quite logical and comprehensible, to those reading them, contributions to economic theory on topics which lie at the heart of mainstream debates. For example, it has been argued that much of what has been rather loosely called Keynesian analysis is, in fact, Kaleckian (Sawyer 1982).

A clue as to why Kalecki's theoretical ideas came out in this peculiarly semi-detached form may be found in his way of working them out:

> ... Really it would be difficult to find Michal leaning over a book. He never wanted to have his own desk. From time to time he would look into a book, finding the place in it that he wanted. Apparently some idea would come to him, and he would start pacing the room. He always needed a large room. He would sit down in the corner of the sofa with a small stub of a pencil, which had to have a rubber at the end of it, and he wrote or rubbed out on a small piece of paper. This was sufficient for him. From time to time he would dictate something to me, but mainly he would dictate to his secretary at his office. In the room the radio could be playing or the television could be switched on. I or our housekeeper could be talking to him. Obviously he had great powers of concentration (Notes by Adela Kalecka, sent to the author on the 28 March 1991).

This first-hand description of his creative activity suggests that Kalecki was in fact an intuitive-deductive thinker; that starting like the good statistician that he was, he set out his variables in a consistent fashion and followed through the meaning of their relationship to each other to its logical conclusion. This would explain the absence of any obvious articulation with any prior theory or theoretical debate.

2.

This conclusion would be a satisfactory answer (or at least a first approximation to one) to the question of why Kalecki's theory is so apparently theoretically semi-detached. However, it cannot be a complete answer because another methodological enigma is also noticeable in Kalecki's theory. This is the way in which, in the course of a *theoretical* argument, that argument is directed by plainly empirical considerations. This is puzzling because, in conventional theoretical discourse in economics, it is usual for the argument to be governed by starting assumptions, or by variations in them in the form of subsequent simplifying or generalizing propositions. The credibility of these assumptions usually depends on their being "reasonable" in some way that may have nothing to do with their empirical accuracy. For example much of welfare economics is entirely abstracted away from observed reality. Kalecki is different in that his arguments are of a logical character constrained by plainly empirical statements.

Two examples, taken together, provide a virtually complete illustration of this way of arguing. In his paper on "Theories of Growth in Different Social Systems" (Kalecki 1970), Kalecki considers the question of whether a "general" theory of economic growth is possible. He makes a clear distinction between capitalism, socialism and developing countries, on the grounds that economic growth under capitalism is demand-constrained, under socialism it is supply-constrained, while in developing countries it is finance-constrained:

> the central problem of the laisser-faire capitalist system ... [is] of effective demand ... [while] The contradiction between consumption in the short period and in the long run and the long run bottlenecks, appearing under the guise of the difficulties in balancing foreign trade, [remain] the central problems of a realistic theory of growth in a socialist economy... [and] The central problem [of under-developed economies] is at whose expense the country is to be developed" (*ibid.*)

These are quite obviously empirical generalizations which Kalecki uses as the basis for his explanation of why theories of economic growth have to be specific according to the political as well as the economic circumstances of the case in question. They are not "universally" acknowledged first principles, which are the starting point of conventional economic theory. They are statements that the world is such, and not that it is *assigned* to be so or that it would be *reasonable to suppose* that it is such.

The second example occurs in Kalecki's theory of distribution, where he states that in the course of a business cycle, prices will tend to move pro-cyclically, and money wages likewise, but with a slight lag. Real wages therefore move counter-cyclically. But since employment varies with the level of output, Kalecki concluded that the share of real wages in national income is relatively constant. Virtually a whole chapter in his selected essays on the growth of the capitalist economy, which he regarded as "my main contribution to the theory of dynamics of the capitalist economy" (Kalecki 1971 p. vii) consists of his commentary on an assembly of statistical evidence for this, as proof of its validity.

> The conclusion that the relative share of profits and wages in national income is independent of the levels of output and employment does not arise out of the micro-economic assumptions, but is a consequence of the ways in which money wages and prices change over the course of the business cycle. Although these fluctuations were confirmed at the time by empirical data, *they had no satisfactory theoretical justification*. It was not clear why changes in money wages, prices and employment must always off-set each other (Osiatynski 1989, emphasis added).

There is therefore an *empirical enigma* in Kalecki's methodology. This lies in the seemingly *ad hoc* manner in which his theory, that is otherwise so rigorously and logically thought out, is orientated by clearly empirical observations.

Moreover, in addition to this ostensible inconsistency, there is the way in which Kalecki's models seem designed, not as abstractions from the world which they describe in order to reproduce the salient features of that world, but in order to identify the determinants of those variables and processes that were of crucial importance to policy-makers. Hence the repeated references to "central problems" in the above-cited paper on economic growth (Kalecki 1970; see also Kriesler 1988, Toporowski 1986). This is also the case in the second example, when the purpose of demonstrating that movements in prices, wages and output off-set each other is revealed. Having shown that a constant share of wages may be widely observed over the course of a business cycle, Kalecki proceeds to show that therefore a *stable* multiplier relationship exists between changes in investment and changes in national income (Kalecki 1971, pp. 98-101).

This empirical and policy orientation of Kalecki's theorizing effectively refutes the view that it is an *intuitive-deductive* procedure dissociated from other economists' theorizing by being founded upon his own intuitions and advanced by strict logical deduction from them.

In fact Kalecki's theoretical works are most completely and comprehensively seen when placed in the context of his applied (empirical and policy) studies. It is not possible now to determine what was going on in his mind while he paced his room, preparing to dictate one of his lucid and seemingly self-contained essays. Even if he was still alive, the extent to which mental states can be communicated is limited by the uniqueness of human experience. However, it is possible to resolve both the theoretical and the empirical enigmas in his work by postulating the obvious, namely that his theoretical essays are simply the conclusions and generalizations drawn from his wide-ranging applied research work. Hence, in expounding his theories and addressing the debates in economic theory that were current in his time, on such topics as the nature of effective demand, imperfect competition and so on, he was recording in a systematic way the ideas that enabled him to make sense of the enormous quantity of empirical observations that he came across in his empirical research, and develop the concepts that he needed to understand the economic policy dilemmas on which he worked and the instruments to resolve them. At the back of his mind was his Marxian theoretical heritage, and he seems to have readily grasped Keynesian economics which, in the context of laisser-faire capitalism, was grappling with similar policy dilemmas.

This view of Kalecki's theoretical contributions as the conclusions drawn from his applied work, rather than debates between economic theoreticians, is also borne out by the order and timing in which his essays in economic theory were produced. This can be divided into roughly two phases. His freelance consultancy work and his market and industrial researches in Poland at the Research Institute on Markets and Prices (Instytut Badan Koniunktur Gospodarczych i cen) from 1929 to 1936 gave him the empirical basis for his first attempts at an economic theory of capitalism (Kalecki 1969). His further researches in London, Cambridge and Oxford up to 1945 led to the refinement of those theories. His one excursion into socialist economics from this time was more a political study of class struggle and institutions than an examination of relations between economic variables ("The Minimum Essentials of Democratic Planning", in Kalecki 1986).

His next research engagement with the United Nations involved him in studies of capitalist industrialised, developing and socialist countries, writing *inter alia* the U.N.'s *World Economic Report* (See appendix 9 by J. Osiatynski, in *Collected Works* vol. 5). This was the empirical foundation for the second phase of Kalecki's theorizing, from 1955 to the end of his life. In this period he developed his theories of socialism and industrialization in Third World countries, in addition to continuing to "touch up" his earlier work on capitalism. He also worked on various empirical research projects, consultancy and policy analysis for governments in Poland and in the developing countries.

Despite this apparently comprehensive immersion in the operations of all types of existing economies, there are gaps in his theory which seem to correspond to those areas of economic activity which were not the subject of any empirical or policy studies on his part. The major one is in his analysis of financial markets, in which

"Kalecki placed most emphasis on money as a medium of exchange and virtually disregarded its role as a potential source of wealth" (Sawyer 1985, p. 89). Kalecki's view of the financial markets is limited to an endogenous theory of money and a theory of interest rates in which the latter do not have much significance, outside financial markets, except in influencing business expectations. He was much more interested in the means by which firms finance their fixed capital investment, while in his analysis of developing economies, the question of finance is accorded the central role that it also had in his research and policy work for the United Nations, and his subsequent consultancy work in the Third World.

Conclusion

Kalecki did not adhere to the conventional economic methodology, in which theories are verified or deduced from each other. His exposition of his theories suggests an intuitive-deductive way of proceeding. But their orientation, and the presence in them at crucial points of references back to empirical observations, suggests that in fact Kalecki employed an empirical-deductive methodology. The proposition that his theories are the conclusions drawn from his empirical and policy researches is confirmed by the timing of his main contributions to economic theory, and his limited contribution to the economics of financial markets, in which his research experience was limited. However, the significance of his methodology extends far beyond the relatively narrow circle of his readers and his admirers. It places him in direct line of succession to Ricardo, who argued in a similarly empirical-deductive way to policy conclusions, and Marx. The latter stood what is now the standard procedure of theoretical argumentation on its head by adding as an appendix to the empirical-deductive *Capital* the Theories of Surplus Value which pose the *theoretical* questions to which *Capital* is the answer. Moreover, it raises the key question of whether economic theory is a scholastic, self-regarding study addressed principally to economic theoreticians, or whether it addresses the real world, and the "central problems" of our time.

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* Department of Business and Finance, South Bank Polytechnic, 103 Borough Road, London SE1 OAA. This paper was presented at the Sixth HETSA Conference, Monash University, 1991. The author wishes to remind readers that strictly speaking there should be accents in the appropriate places in Osiatynski, Lipinski, Badan etc.

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