INTERNATIONAL JOURNAL OF POLITICAL ECONOMY
2025, VOL. 54, NO. 2, 215–230
https://doi.org/10.1080/08911916.2025.2525025

The Political (and Monetary) Aspects of Full Employment

Luciano Alencar Barros[a], Antonino Lofaro[b], and Louis-Philippe Rochon[c]

[a]Institute of Economics, Federal University of Rio de Janeiro, Rio de Janeiro, Brazil; [b]Department of Political Sciences, University of Bari Aldo Moro, Bari, Italy; [c]Department of Economics, Laurentian University, Sudbury, Canada

ABSTRACT
This article seeks to revisit Michal Kalecki's 80-year-old contribution on the political constraints to full employment and use it to analyze the rise of the current macroeconomic framework and its short-term dynamics, in which the political constraint to full employment occurs more through monetary means (rather than through fiscal means, as in the author's original contribution). It is argued that the postwar full employment scenario led to political and social changes that resulted in the abandonment of the Keynesian theoretical framework in favor of the current one, based on Monetarism, which prioritizes monetary policy and relegates fiscal policy to a secondary role, constrained by the logic of austerity. This hegemony of monetary policy, synthesized by mechanical rules, has led, in the long run, to lower growth rates and higher unemployment rates than in the previous period and to an unequivocal process of income concentration.

KEYWORDS
Monetary policy; income distribution; Kalecki; post-Keynesian economics; Taylor rule; Inflation targeting

JEL CLASSIFICATIONS
B22; E11; E12; E43; E52; E58

Introduction

It has been eight decades since Michał Kalecki wrote, in 1943, one of his most famous articles, "Political Aspects of Full Employment", in which he argued that while full employment is technically feasible through the use of fiscal policy, it is constrained by political factors.

A core element of the author's theoretical framework is the principle of effective demand, which Kalecki developed concurrently with Keynes in the early 1930s. Once it is recognized that output levels are determined by effective demand and that governments have the tools to stimulate demand, it follows that the problem of unemployment, a central concern for Kalecki, can be technically solved.

However, as highlighted in his 1943 article, situations close to full employment tend to engender economic, political, and social changes favorable to the working class. As such, the capitalist class would resist the rebalancing of power and pressure the government into adopting contractionary fiscal austerity policies to curb growth and generate unemployment, resulting in an overall effort to reverse these changes. Indeed, along the same lines as Marx's (1976/1867) industrial reserve army, the presence of unemployment would allow capitalists to curb the claims of employed workers by threatening to fire them and replace them with unemployed ones. Therefore, the existence of involuntary unemployment would be an instrument of discipline in the hands of the capitalists. Although it may be easy to conclude that workers' interests conflict with those of capitalists, Kalecki argues that economic interests could meet despite political divergence, as we argue below.

CONTACT Antonino Lofaro antonino.lofaro@uniba.it Department of Political Sciences, University of Bari Aldo Moro, Via Giuseppe Suppa 9, Bari 70122, Italy.
© 2025 Taylor & Francis Group, LLC

While Keynes and Kalecki were formulating their theoretical frameworks, capitalist governments were dealing with the consequences of the Great Depression, increasingly using expansionary economic policies to boost production and employment levels. Given the threat of the spread of socialism worldwide, Keynesian policies were also implemented after the Second World War with the Bretton Woods agreements, of which Keynes was one of the architects. In this policy framework, with the help of capital controls, governments were autonomous and determined to pursue expansive fiscal and monetary policies to ensure lasting economic growth. Putting aside the obsession with price stability and the dominance of financial markets, Western capitalism reached situations close to full employment in the two decades following the end of the conflict. This can be called the Keynesian era.

This idyllic situation, referred to by historians as the "Golden Age of Capitalism", came to an end in the second half of the 1970s due to numerous economic, political, and social factors, such as the evolution in the balance of power among countries and social classes, "stagflation", the rise of Monetarism, and the process of financial liberalization that followed the collapse of Bretton Woods. Indeed, during this time, the rise of neoliberal policies coincided with the rise of conservative ideology and governments, led notably by Margaret Thatcher in the U.K. (1979) and Ronald Reagan in the U.S. (1981). This ushered in the neoliberal era dominated by fiscal and monetary austerity, predicated in many ways on the ideas advocated by University of Chicago economists, notably Milton Friedman. These ideas, focused on laissez-faire doctrine, asserted that discretionary state intervention through fiscal and monetary instruments would be inefficient and would only generate more inflation. Moreover, on this basis, the heavy liberalizations of capital movements and labor markets that undermined the financial stability and welfare system that had characterized the Keynesian era were justified.

As a result, governments in capitalist countries avoided using active fiscal policies to generate full employment in favor of restrictive monetary policies primarily focused on inflation control (monetary austerity). The result was the reversal of the success of the Golden Age and the subsequent macroeconomic performance observed in the following decades: lower growth and higher unemployment rates.[1] In this context, the abandonment of full employment policies resulted in permanent damage to the position in the income distribution of workers, with the wage share falling since the 1980s (International Monetary Fund 2017, ch. 3).

On the flip side of the coin, beyond the increase in the profit share of income, was the rise in financial wealth (partly due to higher interest rates) and its protection (resulting from lower inflation rates). In particular, numerous mainstream economists have noted that policies aimed at curbing inflation could also have a positive impact on economic activity. Even deflation—characterized by a general decline in the price level—has at times been considered beneficial for the economy. Indeed, as originally noted by Pigou (1943), deflation could increase individuals' real wealth and their spending capacity, a phenomenon known as the wealth effect or Pigou effect.

However, this perspective has faced challenges from various authors over the years. Kalecki (1944), as we will explore later, raised concerns about the severe consequences of a sharp increase in the real value of debt.[2] Drawing on Fisher's (1933) theory of debt deflation, Kalecki argued that deflation could ultimately lead to the bankruptcy of numerous productive activities and trigger a crisis of confidence, pushing an economy's consumption and investment into a recessionary spiral. Recent events seem to affirm these doubts about the benefits of deflation. As in the 1929 crisis experienced by Fisher and Kalecki, it becomes apparent that, without decisive government

[1]In this regard, consistent with Kalecki's interpretation and focusing on Canada and the United States, Seccareccia (2013) highlights how the failure to stimulate demand through fiscal policy was at the root of the rising unemployment levels following the Golden Age.

[2]Keynes also discussed the catastrophic effects on the economy of an increase in the real value of debt due to deflation in Chapter 19 of *The General Theory of Employment, Interest and Money* (Keynes 1936).

intervention in major advanced countries, economies would not have successfully emerged from the recession that originated with the crisis of 2008—or at least as well as they did.

One of the primary arguments put forth in this article is that policy constraints hindering full employment persist due to the implementation of not only fiscal austerity but also monetary austerity measures. With the ascendancy of neoliberalism, as exemplified by the prevailing New Consensus model, what was previously achieved through fiscal policy in Kalecki's analysis is now accomplished predominantly through monetary policy, almost mechanistically following Taylor's (1993) rule. In other words, Kalecki's "political factors" are built into the use of monetary policy in an inflation-first policy: when economies reach overheating levels with low unemployment rates, major central banks (including the Federal Reserve, the Bank of England, the European Central Bank, and the Bank of Canada) resort to monetary contraction to slow down economic activity and mitigate labor market pressures, through the deliberate creation of unemployment. Thus, through a contemporary reinterpretation of Kalecki's insights, one could argue that New Consensus monetary policies act as impediments to achieving full employment.

The objective of this article is exactly to adapt Kalecki's discussion of the political limitations on full employment to the current dominant macroeconomic framework, in which monetary policy plays a central role—what Rochon and Setterfield (2007, 2008) have called monetary policy dominance—relegating fiscal policy to a secondary position and subjected to austerity, in opposition to Keynesian principles. Given this objective, the article contains four additional sections. The following section introduces some theoretical elements from Kalecki's (1943) contribution. The section that follows contextualizes, using these elements, the transition from the postwar Keynesian regime to the Monetarist one observed from the mid-1970s. This is followed, in turn, by a fourth section that explores some of Kalecki's ideas on monetary policy and analyzes how central banks' actions automatize the political constraint on full employment. Finally, the last section concludes the paper, emphasizing the relevance of the author's ideas today.

Some Theoretical Elements of Kalecki's Contribution

To understand some of the central elements found in Kalecki's "Political Aspects of Full Employment", it is important to consider the context in which it was written. This occurred during World War II, when central capitalist economies were largely planned given the war effort.

In the previous decade, due to the consequences of the Great Depression, the governments of these countries had already been intervening in the economy with public spending to stimulate aggregate demand, increasing production and employment levels to overcome the negative impacts of the 1929 crisis.[3] Central banks devoted themselves to supporting such fiscal policies by keeping interest rates on government bonds low, a move reinforced by the outbreak of war and the need to finance it. Keynes advised this policy to President Roosevelt in a 1933 letter:

> I see no reason why you should not reduce the rate of interest on your long-term Government Bonds to 2.5 percent or less with favorable repercussions on the whole bond market, if only the Federal Reserve System would replace its present holdings of short-dated Treasury issues by purchasing long-dated issues in exchange. (Keynes 1933, 5)

Indeed, since 1941, in both the U.S. and the U.K., for about 10 years, central banks imposed a cap on interest rate fluctuations on government bonds at 2.5 percent (see Amamiya 2017). This would have minimized the cost of government debt and left room to finance government

[3]In an article written in the late 1960s, Kalecki and Kowalik ([1971]1991) refer to the process of increasing state intervention to address demand deficiencies, which began in the 1930s and was consolidated with the advent of World War II, as a "crucial reform" that would imply significant institutional changes. This idea had already been outlined in the 1943 article, in the concept of "fundamental reform," which suggests that a "full employment capitalism" would have to develop social and political institutions that reflected the increased power of workers.

spending. The importance of this policy mechanism, which was crucial for maintaining the stability of the capitalist system, was also emphasized by President Truman, who, in a letter to Chairman McCabe of the Board of Governors, highlighted how the increase in the debt burden was "exactly what Mr. Stalin wants".[4]

However, Keynes himself, while not denying the beneficial effects of low interest rates on both public debt and the euthanasia of rentiers, pointed out the ineffectiveness of monetary policy, later summarized in the literature with the famous aphorism "you could lead a horse to water, but you could not make him drink" (Friedman 1968, 3; Kriesler and Lavoie 2007, 391)—an aphorism also used by Joan Robinson (1943, 25) in the same context: "But in general, in a slump, it is not lack of finance but poor prospects of profit which is the seat of the trouble. The most that the banks can do by easy lending is to take the horse to the water—it needs an assured future market to make him drink".

In light of this, it is not surprising that a similar position was reached by Kalecki, who, partly because of its central role at the time, focused particularly on fiscal policy. Indeed, the Polish author discusses the use of lower interest rates to stimulate private investment but concludes similarly to Keynes and Robinson that this "does not provide an adequate method of preventing mass unemployment."[5] (Kalecki 1943, 328).

Writing in 1943, Kalecki observes that the capitalist class's opposition to full employment through fiscal policy in normal times was mainly based on three points. Firstly, there would be general disapproval of government interference in the employment problem, as capitalists would view the expansion of state activity with suspicion, undermining their "state of confidence". The latter would be a key variable in determining economic performance, which they would use to compel the state to adopt the sound finance doctrine.

Secondly, there would be specific opposition to increased public spending, whether in investment or subsidies for consumption. In their view, public investment should focus on sectors that would not compete with private enterprises to avoid reducing their profitability; otherwise, its positive effect could be counterbalanced by reduced private investment. Subsidies for popular consumption, in turn, would be "violently opposed" as they undermine a core moral principle of capitalist ethics—namely, that "*you shall earn your bread in sweat*" (Kalecki 1943, 3).

Finally, a situation of discomfort with the social changes resulting from maintaining full employment would be observed by the capitalists, as layoffs would cease to play their disciplinary role, and workers would gain self-confidence and class consciousness. In Marx's terms, reducing the industrial reserve army would increase workers' bargaining power, with political and social impacts—beyond the economic ones. While, on the one hand, at full employment, profits should be higher,[6] on the other hand, capitalists would be more interested in labor discipline and political stability:

> It is true that profits would be higher under a regime of full employment than they are on the average under laisser-faire; and even the rise in wages rates resulting from the stronger bargaining power of the workers is less likely to reduce profits than to increase prices, and thus affects adversely only the rentier interests. But 'discipline in the factories' and 'political stability' are more appreciated by the business leader than profits. Their class instinct tells them that lasting full employment is unsound from their point of view and that unemployment is an integral part of the 'normal' capitalist system (Kalecki 1943, 326).

[4]For further context and content of President Truman's letter, see pages 9 and 10 of the FOMC minutes from January 31, 1951.

[5]The question will be addressed below in the fourth section before our conclusion. In this regard, see also Rochon (2022).

[6]Kalecki argues that wage increases would likely have a more significant impact on prices than on entrepreneurs' profits. It is important to highlight that in situations close to full employment, workers tend to achieve real wage gains. In this case, an increase in the profit rate is only possible if the positive effect resulting from increased capacity utilization (due to increased demand, given workers' higher propensity to consume) more than offsets the decline in the profit margin and share. It is precisely due to a critique of this necessarily cooperative regime – with wages raising with profits – that neo-Kaleckian models, like those by Bhaduri and Marglin (1990), emerge.

While the first two points act as obstacles to achieving full employment, the third point concerns the impracticality of maintaining such a situation even if the first two obstacles were surpassed.[7]

Back in the 1940s, the opposition to any state intervention had already been overcome, so it was a consensus that something needed to be done during a depression. However, capitalists would vehemently oppose policies to maintain full employment permanently. This is due to the third point: in addition to short-term economic changes favorable to workers (such as increasing wages and improvements in working conditions), in the medium term, the maintenance of such a situation would entail political and social changes as institutions were shaped (with the strengthening of unions, political parties, changes in legislation, etc.) in favor of the working class.[8] In such a scenario, the capitalist class would pressure the government to adopt austerity, generate unemployment, and reverse these changes.

> In this situation a powerful block is likely to be formed between big business and the rentier interests, and they would probably find more than one economist to declare that the situation was manifestly unsound. The pressure of all these forces, and in particular of big business – as a rule influential in Government departments – would most probably induce the government to return to the orthodox policy of cutting down the budget deficit. A slump would follow in which Government spending policy would come again into its own. (Kalecki 1943, 330)

While in Kalecki's time, fiscal policy was the tool used both to achieve full employment and deviate from it, from the 1970s onwards, public spending has been increasingly restrained and subjected to contractionary monetary policies, which started to follow conduct rules focused on inflation control to the detriment of the employment level. This movement began in the 1970s, consolidated in the 1980s, and persists to this day.

The Rise of Monetary Policy Dominance

The movement toward the eclipse of postwar full employment Keynesianism and the rise of Monetarism in the 1970s, with its consequences regarding economic policies and macroeconomic performance, have different causes that span different levels. However, as will be argued, this inflection can also be understood through the analysis put forth by Kalecki in "Political Aspects of Full Employment" (Barros 2022b).

Internationally, it is important to highlight the relative weakening of the Soviet economy and the declining attractiveness of the socialist mode of production. Increasingly less threatened by the competing system, Western capitalism, led by the U.S., began to have fewer incentives to demonstrate its most prosperous and fair face. That is to say, in monetary, financial, commercial, and productive terms, there would be increasingly less room for the accelerated growth of other countries within the capitalist orbit, and the United States itself would slow down its economy.

The European and Japanese reconstruction efforts, strategic for the U.S. in the immediate postwar period, began to create growing discomfort for its government, which, pressured by its creditors, would break with the Bretton Woods system in the early 1970s and increasingly advocate for the free mobility of capital across the world. This, in turn, would imply fewer degrees of autonomy for national development strategies.

At national levels—and similarly to Kalecki's analysis developed in the previous section—the postwar prosperity itself generated a structural strengthening of the working class, with all its political (strikes, strengthening of unions and labor parties, shaping of institutions, etc.) and

[7]Since both the implementation of policies aimed at achieving full employment and their abandonment tend to result in situations below that point, capitalist societies would face what Harcourt (2006, 147–149) calls the "Kaleckian dilemma".

[8]Stirati (2001) highlights that the longer the low unemployment scenario is maintained, the greater the capacity of the working class to influence the evolution of the political and institutional framework, strengthening itself even more structurally.

economic consequences (increase in direct and indirect wages and improvements in working conditions). Particularly, from the second half of the 1960s, with wages growing faster than productivity in the main capitalist central countries, their economies witnessed a profit squeeze (Bhaduri and Marglin 1990).

However, the acceleration of wages and the increases in unit labor costs, partly passed on to prices, generated a tendency in these countries toward increasing inflation, a movement that preceded the oil shocks but would be catalyzed by them (Cavalieri, Garegnani, and Lucii 2009). The reaction of Western economies, with stop-and-go policies, generated economic stagnation associated with inflation (stagflation), and a general climate of discontent that would enable the rise of liberalism and Monetarism worldwide.

In the realm of ideas, the conservative movement had been organizing itself in the U.S. since the war's end and was already structured in various institutions such as Think Tanks, intellectual organizations, magazines, radio stations, etc.[9] In this context, Friedman-led Monetarism not only "anticipated" the phenomenon of stagflation but also provided a simple diagnosis and clear propositions of what needed to be done.[10]

In broad terms, stagflation, in their view, would be caused by the government's attempt to bring unemployment levels below the natural unemployment rate, understood as the lowest unemployment rate compatible with inflation stability. This could only be achieved by accelerating the money supply, creating a continuous monetary illusion among agents. Given the dynamics between monetary policy and agents' reaction, a scenario of increasing inflation and a slowdown in growth would follow.

It is common to assert that the Keynesian theoretical framework faced a dilemma in this stagflation scenario. This is because, on the one hand, a stagnant economy would require, according to this approach, fiscal and monetary stimuli to influence demand and increase both production and employment levels. On the other hand, the necessary identification of inflation with excess demand (what we consider to be a mistaken interpretation of Keynes's contribution) would require adopting contractionary economic policies to cool down demand and combat rapid price increases.[11]

Friedman and his followers, on the other hand, had very clear normative prescriptions about what needed to be done. Firstly, it would be necessary to abandon the discretionary use of economic policy, especially fiscal: "We cannot and should not use fiscal policy for fine-tuning the economy" (Friedman 1978, 81). Regarding monetary policy, the ideal, in their view, would be to maintain a constant rate of growth of the money supply: "I and most other monetarists have long favored a policy of a steady and moderate rate of growth of the quantity of money. We have strongly opposed the Fed's trying to fine-tune the economy" (Friedman 1972, 1).

---

[9]"The Think Tanks, radio stations, magazines, and intellectual organizations that were funded by business contributions during the 1950s helped to form the infrastructure for the rise of the conservative movement. From the Mont Pelerin Society to the National Review, from Spiritual Mobilization to the American Enterprise Association, from the Foundation for Economic Education to the Manion Forum, they produced the ideas, popularized the language, and built the support for conservative economic politics at the very height of postwar liberalism" (Phillips-Fein 2009, 81–82).

[10]The term "anticipated" is in quotes because, in the post-Keynesian interpretation, his diagnosis for the inflation of the 1970s was essentially mistaken. While, for Friedman, it would have been caused by excess monetary expansion and growth, for post-Keynesian authors, it would have stemmed from supply shocks, particularly from the rise in wages and oil prices. Additionally, Friedman's timing was wrong, as he predicted the phenomenon of stagflation (which would occur in the mid-1970s) in 1966 for the following year: "Our record economic expansion will probably end sometime in the next year. If it does, prices will continue to rise while unemployment mounts. There will be an inflationary recession. Many will regard this prediction as a contradiction in terms, since it is widely believed that rising prices always go with expansion and falling prices with recession." (Friedman 1966, 92).

[11]Among those advocating this interpretation was Friedman himself: "The inflationary recession will present a dilemma to the Federal Reserve, the Treasury and the President. Rising prices will tempt them to step hard on the brake by slowing down monetary growth, raising taxes and reducing government spending. Rising unemployment will tempt them to step hard on the accelerator by speeding up monetary growth, cutting taxes and increasing spending." (Friedman 1966, 93).

Once Friedman and the monetarist authors adopted the concept of the natural unemployment rate, the prescription of stable monetary and fiscal policies followed to provide predictability to agents. Furthermore, the government should seek labor market flexibility to reduce the natural rate.

> (…) we should adopt stable monetary and fiscal policies and seek to make the labor market as free as possible. Government measures are the primary cause of unnecessary unemployment—particularly minimum-wage laws and measures granting special immunities to trade unions. (Friedman 1972, 75)

Given the global geopolitical context, economic and political turbulence at the national level, and the re-articulation of the conservative movement, the 1970s proved to be the perfect moment for the theoretical and practical rise of Monetarism. It is important to reinforce this because the theoretical framework of Monetarism largely underpins the dominant economic approaches to this day (Fiebiger and Lavoie 2020).

Once the concept of the natural rate of unemployment is adopted (which, after the advent of New Keynesianism, would be replaced by the concept of NAIRU[12]), it is understood that the pursuit of full employment through the adoption of expansionary economic policies cannot bring unemployment below that rate without accelerating inflation. In this sense, efforts should aim at labor market flexibility to reduce the natural rate (or NAIRU), and economic policy should focus specifically on combating inflation, that is, to adjust the production levels to the potential output (or the unemployment rate to the natural one).

In this view, fiscal policy should be relegated to a secondary role, subjected to monetary policy, which, in turn (despite abandoning the attempt to control monetary aggregates rigidly), should adopt strict conduct rules. Following John Taylor's contribution (see Taylor 1993), these rules became known as the "Taylor rule", stipulating that the interest rate should be adjusted whenever inflation (or output) deviated from a specific target. All these ideas have underpinned the predominant theoretical framework during the "monetary policy dominance" period that lasts until today (Rochon and Setterfield 2007, 2008).

With the consolidation of this new theoretical framework, largely grounded in monetarist principles, and the consequent rise of monetary dominance, the political restriction on full employment, as described by Kalecki in 1943, continued to occur, but mainly through monetary channels, namely, through the manipulation of interest rates. As will be discussed in the next section, the latter started to perform a fundamental role and began to serve as an adjustment variable to shape the economic cycle according to the accumulation and distribution interests of the capitalist class in general and rentiers, specifically.

Kalecki, Central Banking, and Monetary Policy

Once Kalecki's discussion over the political constraints to full employment has been introduced and how this discussion can be applied to the very inflection that overshadowed postwar Keynesianism in favor of the theoretical framework that is dominant until today, it is pertinent to present Kalecki's thoughts on monetary issues, and how, within the mainstream framework, the political constraint to full employment manifests itself through the monetary channel.[13]

Our analysis begins eight decades ago when Kalecki discussed the effectiveness of monetary policy. In various passages, Kalecki raised doubts about the efficacy of monetary policy intervention in lifting a depressed economy. First, referring to Pigou's work, he notes how both the

[12]Non-Accelerating Inflation Rate of Unemployment, a concept analogous to Friedman's natural rate of unemployment, but applied to non-competitive markets and, therefore, compatible with the presence of involuntary unemployment.

[13]While Sawyer (2001) offers an excellent analysis of various monetary aspects, ranging from the definition of money to the principle of increasing risk, the subsequent pages will specifically focus on certain considerations regarding monetary policies directly or indirectly derived from Kaleckian thought.

Keynes and the so-called Pigou effects rely on the exogenous money hypothesis, in that the banking system would be assumed to be able to maintain the given money stock.[14]

> Such may be the situation in the initial position but the existence of unemployment causes—according to the assumption of unrestricted competition between the workers—a continuous fall in money wages, and consequently in prices. Now Professor Pigou makes the assumption that when incomes fall the banking system maintains the stock of money constant. (Kalecki 1944, 131)

Moreover, after clarifying that in a depression, there would be an excess supply of real money and a consequent lowering of interest rates, he discusses the Keynes effect and questions the influence of interest rates on investment.

> The increase in the demand for cash in general affects only slightly the long-term rate of interest, which is the most important rate in the determination of the level of investment. Thus it seems quite justifiable to neglect this channel through which a wage reduction could influence the level of employment. (Kalecki 1990, 283)

Kalecki (1990, 262–263) also discusses the influence of monetary policy on consumption, stating how it is difficult to think that interest rates can have a major influence on consumption decisions through the mechanism emphasized by neoclassical theory.

> In classical economics the stimulating influence of a rise in the rate of interest upon the level of savings was strongly emphasized. It has, however, long been indicated that it is not at all certain whether consumption is really encouraged or discouraged by a higher rate of interest. (Kalecki 1990, 262–263)

Regarding the Pigou effect, Kalecki[15] (1944) noted that only outside money and outside bonds could be considered macroeconomic net wealth. In contrast, this would not hold for inside money (bank deposits) and inside bonds (private debt bonds) since one individual's asset will be another's liability, and therefore in aggregate, they would elide. Thus, according to Kalecki, the Pigou effect could not refer to the entire financial wealth but only to outside money (currency in circulation and bank reserves) and outside bonds (public debt securities) and real capital, i.e., the only assets without a corresponding liability in the aggregate.

> The increase in the real value of the stock of money does not mean a rise in the total real value of possessions if all the money (cash and deposits) is 'backed' by credits to persons and firms, i.e. if all the assets of the banking system consist of such credits. For in this case, to the gain of money holders there corresponds an equal loss of the bank debtors. The total real value of possessions increases only to the extent to which money is backed by gold. (Kalecki 1944, 133)

Moreover, Kalecki discussed the catastrophic effects of deflation, already pointed out by Fisher (1933) and later taken up by Minsky and various other heterodox authors. Indeed, the Pigou effect has also been used in the history of economic thought to justify the positive elements of deflation that would increase the wealth and consumption of individuals. However, for Kalecki, in such a scenario, individuals' real level of debt would also be increased, leading to a shift of wealth from debtors to creditors and causing a crisis of distrust and bankers.

> The adjustment required would increase catastrophically the real value of debts, and would consequently lead to wholesale bankruptcy and a confidence crisis. (Kalecki 1944, 132)

This would also favor a redistribution of income toward rentiers.

[14]According to the interpretation of the neoclassical synthesis, an increase in the exogenous money supply (↑M) or a deflation in prices (↓P) would imply an increase in the real money supply (↑M/P), which would tend to lower interest rates and, *ceteris paribus*, stimulate private investment (Keynes effect). On the other hand, as noted by Pigou (1943), the increase in the real value of the money supply would also increase individuals' wealth, thereby boosting their consumption spending (Pigou effect).

[15]As Sau (2006) points out, Keynes had the opportunity to read Kalecki's arguments. He communicated his agreement to the Polish author. He also asked for a reply from Pigou, which, however, never came. Moreover, given that Keynes was the editor of the *Economic Journal* from 1911 to 1945, it is likely that he had early access to Pigou's (1943) and Kalecki's (1944) manuscripts before their official publication.

> When prices decline in the same proportion as wages, this will also be true of profits. But the money income of rentiers consisting of the interest on 'old' debts does not change and therefore, their relative share in profits increases. (Kalecki 1966, 49–50)

In this way, Kalecki (1944) showed how the empirical relevance of both Keynes and Pigou effects are highly questionable, and catastrophic conditions would have to occur in the economy for them to be effective, despite their distributive effects. Moreover, the sensitivity of aggregate consumption and investment in productive capacity to changes in short-term interest rates would be low—a conclusion reached by many post-Keynesian authors today (see, for instance, Cynamon, Fazzari, and Setterfield 2013).

From this perspective, however, interest rates impact aggregate consumption through distributive changes (discussed below) that affect the economy's marginal propensity to consume. Also, interest rate changes would affect other aggregate demand components, such as residential investments and credit-financed consumption (Deleidi 2018; Serrano et al. 2020; Summa 2016).[16] Furthermore, in an open economy, interest rate changes would tend—*ceteris paribus*—to impact the exchange rate and thus exports. In this view, changes in interest rates would affect investments in productive capacity more indirectly, to the extent that they impact other components of aggregate demand whose trend would dictate the pace of expansion of such investments.

This said, it's necessary to highlight that the relationship between interest rates and aggregate demand is non-linear, in the sense that while it may not respond to incremental increases in interest rates, it will eventually respond to cumulative increases, and more often than not, when it is too late, and the economy collapses. It is in this sense that monetary policy has been called a "blunt" instrument (Rochon 1999; Wray 1990).

Hence, precisely because of the interest-insensitive nature of consumption and investment, central banks will increase interest rates several times, the cumulative impact may produce a severe downturn in economic activity and increase unemployment.[17] This is how the monetary-political constraint on full employment presents itself in the current dominant framework.

Whenever unemployment is low, and workers start to get wage increases due to their increased bargaining power,[18] the monetary authority is compelled to raise interest rates and restrain the economy due to its reaction function in the spirit of an inflation-first policy. After several increases, demand cools down, unemployment rises, and the situation reverses. In this sense, monetary policy "automates" the political constraint on full employment.

As outlined in the previous section, in addition to largely providing a theoretical foundation for the current macroeconomic framework regarding the conduct of monetary policy, Monetarism and its successor schools of thought recommend labor market flexibility. This further structurally undermines workers' bargaining power, allowing for lower unemployment rates without significant wage increases. Not surprisingly, wages in the U.S. didn't respond (as they did in the late 1960s) to the very low unemployment rates observed in the U.S. in the last 10 years (Barros 2022a).

---

[16]An empirical analysis focusing on the significant effects of monetary policy on the U.S. residential sector is provided in Barbieri Góes (2023).

[17]There have been 11 interest rate hikes in the United States during the post-pandemic era. However, the situation has been somewhat complicated by the substantial fiscal stimulus implemented under the previous Biden administration. It became even more complex during Donald Trump's presidency, which saw an intensification of interventionist industrial policies and neo-mercantilist measures. These policies, differing in some respects from those pursued in recent decades, appear to suggest a potential new realignment within the neoliberal social order. The interpretation of this emerging social phase is left to future research.

[18]This situation is defined by Abba Lerner as the point of low full employment, from which the reduction of unemployment through the expansion of aggregate demand, although possible, would generate an "inflationary spiral" due to the increase in the bargaining power of workers. The point of high full employment, in turn, corresponds to the lowest unemployment rate made possible by the expansion of effective demand. From this point, any policy that increases aggregate demand to increase output and employment would generate only inflation (Lerner 1951).

The role of labor market flexibility implying greater worker insecurity and contributing to the fight against inflation was acknowledged by the president of the FED, Alan Greenspan, in his address to Congress in 1997.

> The performance of the U.S. economy over the past year has been quite favorable … Low inflation last year was both a symptom and a cause of the good economy … At the same time, continued low levels of inflation and inflation expectations have been a key support for healthy economic performance … But the rate of pay increase still was markedly less than historical relationships with labor market conditions would have predicted. *Atypical restraint on compensation increases has been evident for a few years now and appears to be mainly the consequence of greater worker insecurity*. In 1991, at the bottom of the recession, a survey of workers at large firms by International Survey Research Corporation indicated that 25 percent feared being laid off. In 1996, despite the sharply lower unemployment rate and the tighter labor market, the same survey organization found that 46 percent were fearful of a job layoff. *Thus, the willingness of workers in recent years to trade off smaller increases in wages for greater job security seems to be reasonably well documented.* (Greenspan 1997, italics added)

This situation of "traumatized workers"[19] and its impact on inflation and on the macro performance of the end of the last century was also highlighted by another central banker, Edward W. Kelley Jr., who asserted at a 1995 meeting of Fed governors that:

> I don't know how much, [sic] has to do with the so-called *traumatized worker*. How long is the American workforce going to remain quiescent without the compensation increases that it thinks it should get? When employment is as strong as it is right now, I don't think we can depend on having permanently favorable results in that area. *This has been a rather big key to the present happy macro situation where we have a high capacity utilization rate and a relatively low inflation rate. We all feel rather good about that.* (Kelley 1995; Perelman 2012)

It is also important to note, yet, that the mere threat of interest rate hikes already functions as a means to reduce workers' wage aspirations.[20] Seen from the perspective of an income policy, central banks can use increases in the interest rate as a way of disciplining workers and calming labor markets.

> What the central bank does, instead, is use its interest rate lever to get workers and firms to comply through an incomes policy of 'fear' … Indeed, if workers do not abide by the guideline, the central bank raises the income of one group, the recipients of investment income (or rentiers), through higher interest rates, while simultaneously seeking to reduce the income growth of the others, both wage earners and even business profit income earners. (Rochon and Seccareccia 2023, 25).

Through the impact of interest rates on the labor market and the level of unemployment, the rise in the interest rate reduces the wage share, negatively affecting income distribution (generating concentration), what Rochon and Seccareccia (2023) refer to as the indirect channel of monetary policy on distribution.[21] The authors further discuss two other channels that reinforce this distributional impact: the direct channel, which increases bondholders' income, and the wealth channel, which involves the effects of interest rates on the financial market and asset prices.

Charles Goodhart (1988) formalized this non-neutral distributive nature of central banks in his "club theory". Indeed, the strategy of inflation targeting would be implemented by the central bank, the manager of the banking club, to defend lenders from inflation and strengthen the international position of the financial sector with a stronger currency–monetary policy done through Epstein's (2015, 106) "finance-colored glasses" (see also Marshall and Rochon 2022). This narrative contrasts sharply with that presented by mainstream New Consensus models, where central banks are seen as formulating policy in the general interest of society as a whole. According to

[19]For a deeper analysis of this expression, see Perelman (2012).

[20]On the role of monetary policy as a means to stop workers' aspirations and wage expansion, see Levrero (2024).

[21]Di Bucchianico and Lofaro (2024) provide empirical evidence on the effects of monetary policy on income distribution, finding a particularly negative impact on real wages and the labor share. This effect is explained by the weakening of workers' bargaining power resulting from higher unemployment levels following contractionary monetary policy.

these models, the distributional neutrality of central banks can only be compromised by forecasting errors or flawed theoretical models, rather than by any preference for one social class over another (Epstein 2015; Seccareccia 2017).

However, once the distributive aspects of monetary policy are acknowledged, it becomes necessary to update Kalecki's analytical framework to account for not only the basic dichotomy between labor and capital but also the internal division within the capitalist class, particularly focusing on the financial fraction (or the rentier subclass). Thus, beyond the general benefit for the capitalist class in moving the economy away from full employment through monetary policy, this policy specifically tends to favor financial capital, sometimes even at the expense of productive capital. Furthermore, it is crucial to emphasize that this is not an accidental outcome but rather a process driven by the influential pressure exerted by the financial class on the decision-making power of central banks.

In this regard, building directly on Kalecki's (1943) contribution, the "contested terrain" approach argues that in advanced capitalist countries, central bank decisions are shaped by the struggle among the working class, financial capitalists, and industrial capitalists (Epstein 1994; Epstein and Schor 1990). The dominance of one class over the others is influenced by several factors, such as the institutional characteristics of the central bank, the structure of the labor market, international relations, and the relationship between financial and industrial capital (Epstein 2015). In particular, Epstein and Schor (1990) emphasize the important role played by the relationship between industry and finance.[22] Moreover, factors such as the degree of unionization and worker protection may play a role in the dynamics of social contestation, but the evolving institutional structure of central banks is also important. Indeed, less integrated, more independent central banks tend to become dependent on the financial sector for political support. Thus, "from this perspective, policy that fails to operate in the public interest can often be explained by looking at the narrower interests—often financial interests—that dominate the central bank those policies are designed to serve." (Epstein 2015, 106).

In the United States, the dependence on the financial sector has been repeatedly highlighted throughout various historical phases. Indeed, according to Epstein and Ferguson (1984), the conservative positions of financial and banking groups prevailed over different social pressures during the 1930s crisis in shaping the Federal Reserve's policy. These policies were hesitant in supporting the real economy and employment, prioritizing the protection of banking interests and exacerbating conflicts with industry. The catastrophic economic performance of the 1930s—along with the geopolitical pressures of the Cold War—led, in the postwar period, to a more expansionary monetary policy focused on growth and full employment. However, as outlined in our previous section, the turn from the 1970s to the 1980s saw a radical reversal of this stance, reflected in the very change in the dominant theoretical framework adopted by the mainstream. In this context, the independence of the Federal Reserve was bolstered by the influence of financial sectors opposed to inflation, which benefited from highly restrictive monetary policies (Epstein 1982).

Epstein's interpretation is also supported by other authors, such as De Cecco (1987), who argued that the Volcker era represented an attempt by the United States to regain financial hegemony, having lost its productive dominance. In line with this analysis, Vianello (2013) highlighted how restrictive policies were implemented to strengthen the dollar and maximize the

[22]In European countries, where finance and industry are more closely intertwined, central banks tend to take into account the interests of both financial and industrial capital. As a result, monetary policies are more likely to support industrial production and maintain stable relations between the financial and productive sectors (e.g., the German model of cooperative capitalism). In contrast, in Anglo-Saxon countries, where finance and industry are more disconnected and focused on short-term gains, central banks tend to be more influenced by the financial sector. Here, monetary policy is often more focused on financial stability and controlling inflation, with an emphasis on attracting capital and protecting financial market interests. In such countries, central banks may be more inclined to keep interest rates high or pursue restrictive policies to safeguard currency value and meet the expectations of financial markets, sometimes at the expense of the productive sector.

inflow of petrodollars from oil producers into the U.S. banking system. However, these influences, albeit with different monetary policies, have not ceased even in more recent times. Indeed, Epstein (2002) and Seccareccia (2017), among others, note that both the reduction in workers' bargaining power and the need for capital gains have led central banks to support asset prices through decidedly expansive monetary policies. They argue that such decisions were driven by a different need of the financial class: a narrative that starkly contrasts with theories portraying central banks as neutral actors based on the idea of secular stagnation and the resulting decline in natural interest rates.

It is precisely to prevent such influences of rentiers (in particular, and the capitalist class in general) on monetary policy decisions and to achieve better results for the whole society that, in recent decades, the post-Keynesian monetary policy agenda has been developed. In addition to the distributive aspects, it has the advantage of shifting its focus away from stabilizing the economy, providing degrees of freedom for economic policy to pursue other goals beyond combating inflation (Lavoie 1996).

Although it is not the focus of this article to present in detail the post-Keynesian monetary agenda, it is worth noting that it offers alternative rules for conducting monetary policy, following the "parking-it" approach, aimed at preventing restrictive monetary policies, ostensibly designed to fine-tune the economy, from ultimately favoring particular social interests.

Among these rules, it is important to highlight Smithin's (2007) proposal, which suggests that the real interest rate should be zero (i.e., the nominal rate should equal the current inflation rate); the Kansas City rule (Wray 2007), which sets the nominal interest rate at zero (so that the real rate tends to remain in negative territory); and the Pasinetti rule (or "fair rate rule"), which argues that the real interest rate should be equal to the rate of productivity growth (Gnos and Rochon 2007; Lavoie and Seccareccia 1999, 2025).[23] Setting their differences aside, they all share a common characteristic of seeing monetary policy in terms of income distribution[24] (see Kappes, Rochon, and Vallet 2022). In distributive terms, while the first two rules distribute real income away from rentiers, in line with Keynes's concept of the "Euthanasia of the Rentier", Pasinetti's rule would be more neutral.

In addition to suggesting different ways of conducting monetary policy, the post-Keynesian agenda reaffirms the need for a more central role for fiscal policy—given the high fiscal multipliers—to ensure full employment in the economy, which would benefit the poorer classes.

It is concluded that while the post-Keynesian research program advocates for an alternative framework aimed at a more prosperous and just society, the theoretical framework inspired by Monetarism—on which the New Consensus in Macroeconomics, for the topics discussed here, largely relies—adopted after the political shift of the 1970s implies lower levels and rates of growth of output, automating Kalecki's "political business cycle" and leading to the unmistakable process of income concentration observed since then.

Conclusion

Throughout the article, we sought to present Kalecki's (1943) analysis, according to which economists and governments, even knowing how to achieve full employment, do not do so for political reasons. In this analysis, the author addressed fiscal policy as a tool to achieve this goal. The purpose of this article was to demonstrate how this limitation to full employment occurs today, due to the dominant theoretical framework, almost automatically through monetary policy.

[23]On the origins of the Pasinetti rule, see Lavoie and Seccareccia (2025); for a theoretical discussion, see Levrero and Lofaro (2025); and for an empirical validation, see both Matamoros and Seccareccia (2025) and Clavijo Cortes, Kappes, and Rochon (2025).

[24]Still looking at the relationship between monetary policy and income distribution, see Lofaro et al. (2024) to explore the commonalities and differences between the various heterodox schools on this issue.

Once the principle of effective demand is assumed and it is recognized that the government can expand its spending, it is concluded that achieving full employment is an option that societies should adopt or not. However, this point implies political and social changes that disadvantage the capitalist class that pressure the government to adopt contractionary economic policies to slow down the economy and reverse the situation.

As argued, the inflection observed in the 1970s—where Keynesianism focused on full employment with fiscal activism was replaced by Monetarism (and theoretical currents that are its heirs) primarily concerned with combating inflation through austerity—can be analyzed based on the same contribution from Kalecki. The postwar full employment engendered political and social changes in favor of the working class, so that in that decade, capitalists turned the tables, imposing an entirely new theoretical framework, Monetarism, that undoubtedly reversed this situation.

This framework recommends fiscal austerity and the adoption of strict rules for conducting monetary policy, essentially focusing on inflation. This implies lower growth rates and higher unemployment rates (compared to the postwar performance), which reduce workers' bargaining power and, through wage deceleration, tend to control inflation. This weakening of the working class is further reinforced by the normative recommendation of labor market flexibility, which, under the pretext of reducing the natural unemployment rate, implies another harsh blow to workers.

Adopting such rules basically automates the political restriction on full employment. Whenever the economy is heated and workers are strengthened, the monetary authority raises interest rates to reverse the situation. In addition to the negative impacts on output and employment, such a framework also implies perverse distributive consequences. It is no wonder that since the 1980s, lower growth rates and an unequivocal process of income concentration have been observed.

Thus, in conclusion, it is worth highlighting again the political bias of this theoretical framework and its inadequacy for societies that should have prosperity and social justice as their goal. Above all, it is worth noting the relevance of Michal Kalecki's contribution, a giant of economics who, in our view, has received much less recognition than he deserves.

Acknowledgments

The authors are grateful to Mario Seccareccia and two anonymous referees for their valuable and constructive comments. We also thank the organizers and participants of the 5th International Workshop on Demand-Led Growth: Capital Flows and External Constraints, held at the Institute of Economics, Federal University of Rio de Janeiro (UFRJ), in 2024. All remaining errors are, of course, the sole responsibility of the authors.

Disclosure Statement

No potential conflict of interest was reported by the authors.

Notes on contributors

Luciano Alencar Barros is an Assistant Professor at the Institute of Economics of the Federal University of Rio de Janeiro and a Researcher at the Institute of Social and Political Studies of the State University of Rio de Janeiro.

Antonino Lofaro is a Postdoctoral Researcher in the Department of Political Sciences at the University of Bari Aldo Moro, Italy.

Louis-Philippe Rochon is a Full Professor of Economics at Laurentian University, Canada; Editor-in-Chief of the *Review of Political Economy* and Founding Editor Emeritus of the *Review of Keynesian Economics*. He is also the co-director of the *Monetary Policy Institute*, and the editor of the @Monetaryblog.

ORCID

Antonino Lofaro http://orcid.org/0009-0003-2149-0643
Louis-Philippe Rochon http://orcid.org/0000-0002-8542-7497

References

Amamiya, M. 2017. "History and Theories of Yield Curve Control." Keynote Speech at the Financial Markets Panel Conference to Commemorate the 40th Meeting, Bank of Japan, January.

Barbieri Góes, M. C. 2023. "A Tale of Three Prices: Monetary Policy and Autonomous Consumption in the US." *Structural Change and Economic Dynamics* 67: 115–127. https://doi.org/10.1016/j.strueco.2023.01.006.

Barros, L. A. 2022a. "The Relationship between Inflation and Unemployment in the USA in the Surplus Approach." *Atlantic Review of Economics* 5 (2): 1–25.

Barros, L. A. 2022b. "O Fim Da "Era De Ouro" Do Capitalismo: Análise Crítica De Algumas Interpretações [The End of the "Golden Age" of Capitalism: Critical Analysis of Some Interpretations]." Tese de doutorado, Universidade Federal do Rio de Janeiro Instituto de Economia.

Bhaduri, A., and S. A. Marglin. 1990. "Unemployment and the Real Wage: The Economic Basis for Contesting Political Ideologies." *Cambridge Journal of Economics* 14 (4): 375–393. https://doi.org/10.1093/oxfordjournals.cje.a035141.

Cavalieri, T., P. Garegnani, and M. Lucii. 2009. "Full Employment and the Left." In *Theory and Practice of Economic Policy: Tradition and Change. Selected Papers from the 9th Aispe Conference*, 334–345. Milano: Franco Angeli.

Clavijo Cortes, P. H., S. A. Kappes, and L. P. Rochon. 2025. "Distributional Regimes in the US—the Pasinetti Index and the Monetary Policy Effects on Income Distribution." *Review of Political Economy* 37 (3): 734–755. https://doi.org/10.1080/09538259.2025.2495711.

Cynamon, B. Z., S. M. Fazzari, and M. Setterfield. 2013. "Understanding the Great Recession." In *After the Great Recession: The Struggle for Economic Recovery and Growth*, edited by B. Z. Cynamon, S. M. Fazzari, and M. Setterfield, 3–30. Cambridge: Cambridge University Press.

De Cecco, M. 1987. "La Liberalizzazione Valutaria: Riflessioni Di Un Economista [Currency Liberalization: Reflections of an Economist]." *La Comunità Internazionale* 42 (4): 473–483.

Deleidi, M. 2018. "Post-Keynesian Endogenous Money Theory: A Theoretical and Empirical Investigation of the Credit Demand Schedule." *Journal of Post Keynesian Economics* 41 (2): 185–209. https://doi.org/10.1080/01603477.2017.1338967.

Di Bucchianico, S., and A. Lofaro. 2024. "The Impact of Monetary Policy on Functional Income Distribution: A Panel VAR Analysis (1970–2019)." CELPE Discussion Paper No. 168.

Epstein, G. 1982. "Federal Reserve Politics and Monetary Instability." In *The Political Economy of Public Policy*, edited by A. Stone and E. J. Harpham, 211–240. Beverly Hills: Sage.

Epstein, G. 1994. "A Political Economy Model of Comparative Central Banking." In *New Perspectives in Monetary Macroeconomics: Explorations in the Tradition of Hyman Minsky*, edited by G. Dymski and R. Pollin, 231–277. Ann Arbor: University of Michigan Press.

Epstein, G. 2002. "Financialization, Rentier Interests, and Central Bank Policy." Working Paper, Department of Economics and Political Economy Research Institute (PERI), University of Massachusetts, Amherst.

Epstein, G. 2015. "Contested Terrain." In *The Encyclopedia of Central Banking*, edited by L.-P. Rochon and S. Rossi, 105–107. Cheltenham: Edward Elgar Publishing.

Epstein, G., and T. Ferguson. 1984. "Monetary Policy, Loan Liquidation, and Industrial Conflict: The Federal Reserve and the Open Market Operations of 1932." *The Journal of Economic History* 44 (4): 957–983. https://doi.org/10.1017/S0022050700033040.

Epstein, G., and J. Schor. 1990. "Macropolicy in the Rise and Fall of the Golden Age." In *The Golden Age of Capitalism: Reinterpreting the Postwar Experience*, edited by S. Marglin and J. Schor, 126–152. Oxford: Oxford University Press.

Fiebiger, B., and M. Lavoie. 2020. "Helicopter Ben, Monetarism, the New Keynesian Credit View, and Loanable Funds." *Journal of Economic Issues* 54 (1): 77–96. https://doi.org/10.1080/00213624.2020.1720567.

Fisher, I. 1933. "The Debt-Deflation Theory of Great Depressions." *Econometrica* 1 (4): 337–357. https://doi.org/10.2307/1907327.

Friedman, M. 1966. "Inflationary Recession." *Newsweek*, October 17, 92.

Friedman, M. 1968. "The Role of Monetary Policy." *The American Economic Review* 58 (1): 1–17.

Friedman, M. 1972. "The Case for a Monetary Rule." *Newsweek,* February 7, 67.

Friedman, M. 1978. "Answering the Big Questions." *Newsweek*, May 29, 80–81.

Gnos, C., and L.-P. Rochon. 2007. "The New Consensus and Post-Keynesian Interest Rate Policy." *Review of Political Economy* 19 (3): 369–386. https://doi.org/10.1080/09538250701453071.
Goodhart, C. 1988. *The Evolution of Central Banks*. Cambridge, MA: MIT Press.
Greenspan, A. 1997. "Testimony before the Subcommittee on Domestic and International Monetary Policy of the Committee on Banking and Financial Services." *U.S. House of Representatives,* March 5.
Harcourt, G. C. 2006. *The Structure of Post-Keynesian Economics: The Core Contributions of the Pioneers*. Cambridge: Cambridge University Press.
International Monetary Fund. 2017. "Understanding the Downward Trend in Labor Income Shares." *World Economic Outlook,* April, Chap. 3.
Kalecki, M. 1943. "The Political Aspects of Full Employment." *The Political Quarterly* 14 (4): 322–330. https://doi.org/10.1111/j.1467-923X.1943.tb01016.x.
Kalecki, M. 1944. "Professor Pigou on "the Classical Stationary State": A Comment." *The Economic Journal* 54 (213): 131–132. https://doi.org/10.2307/2959845.
Kalecki, M. 1966. *Studies in the Theory of Business Cycles, 1933–1939*. Oxford: Basil Blackwell.
Kalecki, M. 1990. "Collected Works of Michal Kalecki: Volume I." In *Capitalism: Business Cycles and Full Employment*. Oxford: Oxford University Press.
Kalecki, M., and T. Kowalik. 1991/1971. "Observations on the 'Crucial Reform'." In *Collected Works of Michal Kalecki*, edited by J. Osiatynski. Vol. II. Oxford: Clarendon Press.
Kappes, S., L.-P. Rochon, and G. Vallet. 2022. *Central Banking, Monetary Policy and Income Distribution*. Chelteham: Edward Elgar Publishing.
Kelley, E. W. Jr. 1995. "Federal Open Market Committee Meeting Transcripts." http://www.federalreserve.gov/monetarypolicy/files/FOMC19950822meeting.pdf.
Keynes, J. M. 1933. "An Open Letter to President Roosevelt." *The New York Times*, December 16, 1–5.
Keynes, J. M. 1936. *The General Theory of Employment, Interest and Money*. London: Macmillan.
Kriesler, P., and M. Lavoie. 2007. "The New Consensus on Monetary Policy and Its Post-Keynesian Critique." *Review of Political Economy* 19 (3): 387–404. https://doi.org/10.1080/09538250701453097.
Lavoie, M. 1996. "Monetary Policy in an Economy with Endogenous Credit Money." In *Money in Motion: The Post-Keynesian and Circulation Approaches*, edited by G. Deleplace and E. Nell, 532–545. London: Macmillan.
Lavoie, M., and M. Seccareccia. 1999. "Interest Rate: Fair." In *Encyclopedia of Political Economy*, edited by P.A. O'Hara, Vol. 1, 543–545. London: Routledge.
Lavoie, M., and M. Seccareccia. 2025. "Where Do the Pasinetti Rule and the Pasinetti Index Come from?" *Review of Political Economy* 37 (3): 719–733. https://doi.org/10.1080/09538259.2024.2360505.
Lerner, A. 1951. *The Economics of Employment*. New York: McGraw-Hill.
Levrero, E. S. 2024. "The Taylor Rule and Its Aftermath: An Interpretation along Classical-Keynesian Lines." *Review of Political Economy* 36 (2): 581–599. https://doi.org/10.1080/09538259.2023.2166729.
Levrero, E. S., and A. Lofaro. 2025. "Monetary Policy and Income Distribution: Some Reflections on the Pasinetti Rule." *Review of Political Economy* 37 (3): 867–886. https://doi.org/10.1080/09538259.2025.2458132.
Lofaro, A., G. Matamoros, and L.-P. Rochon. 2024. "Monetary Policy and Income Distribution: The Post-Keynesian and Sraffian Perspectives." *Review of Political Economy* 36 (3): 892–918. https://doi.org/10.1080/09538259.2023.2272139.
Marshall, W. C., and L.-P. Rochon. 2022. "Understanding Full Investment and the Potential Role of Public Banks." In *Development and Public Banks*, edited by S. Griffith-Jones, R. Marodon, and L.-P. Rochon, 153–168. London: Routledge.
Marx, K. 1976/1867. *Capital: A Critique of Political Economy*. Vol. I. Translated by B. Fowkes. London: Penguin Books.
Matamoros, G., and M. Seccareccia. 2025. "Revisiting the Pasinetti Index: Understanding Its Cyclical and Long-Term Features and Its Important Implications for Macroeconomic Policy." *Review of Political Economy* 37 (3): 787–810. https://doi.org/10.1080/09538259.2024.2392177.
Perelman, M. 2012. "The Power of Economics versus the Economics of Power." *Challenge* 55 (6): 53–66. https://doi.org/10.2753/0577-5132550603.
Phillips-Fein, K. 2009. *Invisible Hands: The Making of the Conservative Movement from the New Deal to Reagan*. New York: W.W. Norton & Co.
Pigou, A. C. 1943. "The Classical Stationary State." *The Economic Journal* 53 (212): 343–351. https://doi.org/10.2307/2226394.
Robinson, J. 1943. *The Problem with Full Employment*. London: The Workers' Educational Association & Workers' Educational Trade Union Committee.
Rochon, L.-P. 1999. *Credit, Money and Production: An Alternative Post-Keynesian Approach*. Cheltenham: Edward Elgar Publishing.
Rochon, L.-P. 2022. "The General Ineffectiveness of Monetary Policy." In *The Future of Central Banking*, edited by S. Kappes, L.-P. Rochon, and G. Vallet, 20–37. Cheltenham: Edward Elgar Publishing.

Rochon, L.-P, and M. Seccareccia. 2023. “A Primer on Monetary Policy and Its Effect on Income Distribution: A Heterodox Perspective.” In *Central Banking, Monetary Policy and Income Distribution*, edited by S. Kappes, L.-P. Rochon, and G. Vallet, 20–34. Cheltenham: Edward Elgar Publishing.

Rochon, L.-P., and M. Setterfield. 2007. “Interest Rates, Income Distribution and Monetary Policy Dominance: Post Keynesians and the “Fair” Rate of Interest.” *Journal of Post Keynesian Economics* 30 (1): 13–42. https://doi.org/10.2753/PKE0160-3477300101.

Rochon, L.-P., and M. Setterfield. 2008. “The Political Economy of Interest-Rate Setting, Inflation, and Income Distribution.” *International Journal of Political Economy* 37 (2): 5–25. https://doi.org/10.2753/IJP0891-1916370201.

Sau, L. 2006. “Non-Stabilizing Flexibility: From the Contributions by Keynes and Kalecki towards a Post-Keynesian Approach.” *Studi Economici* 88 (1): 79–92.

Sawyer, M. 2001. “Kalecki on Money and Finance.” *The European Journal of the History of Economic Thought* 8 (4): 487–508. https://doi.org/10.1080/09672560110079502.

Seccareccia, M. 2013. “Budgetary Deficits and Overhanging Public Debt: Obstacles or Instruments to Full Employment? A Kaleckian/Institutionalist Perspective.” *Journal of Economic Issues* 47 (2): 437–444. https://doi.org/10.2753/JEI0021-3624470217.

Seccareccia, M. 2017. “Which Vested Interests Do Central Banks Really Serve? Understanding Central Bank Policy since the Global Financial Crisis.” *Journal of Economic Issues* 51 (2): 341–350. https://doi.org/10.1080/00213624.2017.1320514.

Serrano, F., R. Summa, and V. G. Moreira. 2020. “Stagnation and Unnaturally Low Interest Rates: A Simple Critique of the Amended New Consensus and the Sraffian Supermultiplier Alternative.” *Review of Keynesian Economics* 8 (3): 365–384. https://doi.org/10.4337/roke.2020.03.04.

Smithin, J. 2007. “A Real Interest Rate Rule for Monetary Policy?” *Journal of Post Keynesian Economics* 30 (1): 101–118. https://doi.org/10.2753/PKE0160-3477300105.

Stirati, A. 2001. “Inflation, Unemployment and Hysteresis: An Alternative View.” *Review of Political Economy* 13 (4): 427–451. https://doi.org/10.1080/09538250120099944.

Summa, R. 2016. “An Alternative Model to the Open-Economy ‘New Consensus’ for the Analysis of Inflation Targeting.” *EconomiA* 17 (3): 310–323. https://doi.org/10.1016/j.econ.2016.09.007.

Taylor, J. B. 1993. “Discretion versus Policy Rules in Practice.” In *Carnegie-Rochester Conference Series on Public Policy*. Vol. 39, 195–214. North-Holland: Elsevier.

Vianello, F. 2013. “La Moneta Unica Europea [The Single European Currency].” *Economia & Lavoro* 47 (1): 17–46.

Wray, R. L. 1990. *Money and Credit in Capitalist Economies: The Endogenous Money Approach*. Cheltenham: Edward Elgar Publishing.

Wray, R. L. 2007. “A Post Keynesian View of Central Bank Independence, Policy Targets, and the Rules versus Discretion Debate.” *Journal of Post Keynesian Economics* 30 (1): 119–141. https://doi.org/10.2753/PKE0160-3477300106.