TOWARD A RADICAL POST-KEYNESIAN INSTITUTIONALIST PERSPECTIVE ON ECONOMIC DEVELOPMENT

João Gabriel Nascimento de Almeida

Masters student in Economics

Federal University of ABC

joao.almeida@aluno.ufabc.edu.br

The present work was carried out with the support of **CAPES**, an entity of the Brazilian Government focused on the training of human resources.

2022

1. Introduction

Hyman Minsky was a heterodox economist who recently became better known for predicting that economic stability and financial deregulation would lead to a serious economic crisis, as was the case with the great financial crisis of 2008. The mainstream debate about the crisis got a nice slogan: the "Minsky moment". However, little more than the recognition of an episode of financial fragility and information asymmetry was seized upon by economists and policymakers (Wray, 2016, pp. 8–13). Meanwhile, heterodox economists were agitated to see that an evolutionary perspective explaining economic instability as something intrinsic to capitalism was receiving more attention in the public debate. Minsky's legacy is generally attributed to the post-Keynesian school, although other influences, such as Schumpeter and Henry Simons, have been pointed out (Wray, 2016, pp. 21–27). However, those who worked very closely with Minsky at the Levy Institute knew that he was considered the main reference of an evolutionary approach tributary to the works of Keynes and the evolutionary tradition of the old institutionalism of Thorstein Veblen and John Commons: the Post-Keynesian Institutionalism (Whalen, 2020).

Minsky's PKI focused on various phenomena, such as financial instability and the evolution of the institutions of American capitalism[1]. However, this study hypothesizes that there is enormous potential to extend the PKI approach beyond the borders of the United States, and issues such as economic development and center-periphery relations. Thus, two recognized gaps in the PKI (Whalen, 2020, pp. 16–18) would be filled: the exaggerated emphasis on the context of US society; the non-incorporation of other post-Keynesian authors such as Kalecki, Kaldor, and Thirlwall; and adding the observation of another gap, the incorporation of the contribution of other authors of radical institutionalism, such as Karl Polanyi and William Dugger. The objective is to outline some theoretical connections that will allow the application of this theoretical framework to countries or regions in the periphery of capitalism in the analysis and construction of economic policy.

The second section of this paper point to the radical institutionalist conception of effective demand and financial fragility, which were present both as a theoretical premise and as a conclusion in Thorstein Veblen's thought. The third section presents the evolution of

[1] With emphasis on the more recent phase known as "Money Manager Capitalism".

financial institutions and their developments in the current phase of global business cycles of unstable finance-dominated capitalism. The fourth section discuss the economic development and production structure seen by Kaldor, which results in different long-run trajectories across countries. In the fifth section, the Kaldor-Thirlwall law is subjected to the optics of Minsky, Veblen and Polanyi, which demonstrates the institutional relationships underlying these findings. Finally, the arguments presented in the paper will be summarized.

1. Toward a radical post-Keynesian Institutionalism

The object of investigation of Radical Institutionalism is the Substantive Economy (SE) (Neale, 1987). In a nutshell, the SE is the institutionalized interaction of human beings with nature to provide the means to satisfy their material needs[2]. This is not to say that material needs only end with bodily needs, much less that man institutes these activities individually; and the process is institutionalized precisely by the social need to maintain the constant flow necessary for the usually adequate level of collective subsistence. This definition of economics stands in contrast to Formal Economics of orthodoxy (Polanyi, 1977, pp. 19–21), i.e., the optimal choice of alternative uses for scarce resources.

Thus, there are two dimensions of the market, as Dugger (1989) warns: one the enabling myth guaranteed ceremonially, that is, by tradition and the power arrangements of the social structure, and the other the institutionally specific process of the functioning of each capitalist market guaranteed instrumentally (but ceremonially encapsulated), that is, through knowledge applied to problem-solving.

Therefore, Radical Institutionalism is one that, beyond the approach of institutions as an organic element of social life, recover, from Veblen, the centrality of capitalist domination as objective and subjective reproduction of the leisure class (Dugger and Waller, 1996). By extension, the formal discourse of economic development extends the enabling myths of the institution of capitalist capital, credit, and consumer markets to stratification among nations in an international center-periphery relationship.

[2] This is similar to Veblen's definition of economic institutions as "habitual methods of carrying on the life process of the community in contact with the material environment in which it lives" (2007, p. 128).

1.1. The effective demand for institutionalists

In The Theory of Business Enterprises (TBE) (2016), Veblen clarifies that the direction of the industry by commercial logic jeopardizes the possible welfare created by the co-ordination of the entire industrial chain through temporary gains related to price disturbances generated in the production chain. It is these "interstitial adjustments" in the retention or overproduction of the means of production that allow profitable business opportunities in the current or subsequent realization of production. It is by the possibility of the realization of production, that is, the sale of production and its conversion into a currency that the entrepreneur feels secure. Business and investment decisions are guided by these pecuniary opportunities. In other words, capitalism is the Monetary Economy of Production.

A characteristic of the Monetary Economy of Production is that money becomes a key institution for understanding capitalist dynamics in the institutionalist tradition. According to Dudley Dillard, who was split between Institutionalism and Keynesianism:

> "What is special about money under capitalism is that the private owners of capital assets may be deterred from making them available to wage earners because of uncertainty concerning the terms on which real output can be converted into money in the future at time of sale. [...] The free laborers cannot employ themselves because they do not have legal access to the instruments of production required for self-employment. Therefore, they depend for their livelihood on conditions that will induce capitalists to offer them employment." (Dillard, 1987, pp. 1623–24).

Recovering Kalecki's famous text, "The political aspects of full employment" (1943), the shortcomings of effective demand are a tool for disciplining the private institutions of private planning of production. Sometimes discipline is given (i) to the state through fiscal austerity, sometimes (ii) to workers through involuntary unemployment, and sometimes (iii) to private competing sectors through credit restrictions and monopolistic practices. Thus, it is in the spirit of the Monetary Production Economics tradition of Radical Institutionalism and the recovery of the Political Economy that post-Keynesianism is invited into the conversation.

2. The Monetary Economy of Production for Veblen and Minsky

> The need of conspicuous waste, therefore, stands ready to absorb any increase in the community's industrial efficiency or output of goods, after the most elementary physical wants have been provided for. [...] The strain is not lightened as industrial efficiency increases and makes a lighter strain possible, but the increment of output is turned to use to meet this want, which is indefinitely expansible [...]. (Veblen, 2007, p. 75)

> One reason may be that the rich turned to consuming capital-intensive bundles of goods rather than philosophy and culture and that their example filtered down to the not so rich. Thus a variety of conspicuous consumption became generalized, and this conspicuous consumption has led to a continuing capital shortage. (Minsky, 2008a, p. 151)

Conspicuous consumption is a condition of capital scarcity for Minsky and Veblen, as the above excerpts demonstrate. The pecuniary interest in currency retention allowed by this scarcity of capital is the possibility of retaining economic power.

There are two striking differences in the usual ways in which economic power is retained in the different historical moments observed by Veblen and Minsky. The first is that in TBE, Veblen observes the emergence of a large business corporation but, in which the instability of investment and the amplitude of business cycle variations, although attenuated, is represented the hallmark of the industrial enterprise. While the modern financial instability scenario analyzed by Minsky implies a daily reassessment of asset prices based on changes in perceptions about technological standards, laws and regulations, weather events, and other contingencies, investment decisions in the era of stabilization of large corporations were mostly irrevocable. Moreover, the incentives for leverage were based on the capitalized goodwill[3] of the firm, and not on the homogenization of securitized debt guaranteed by an abstract "good business climate" as in Minsky's time.

The innovation of the industry and productivity gains through technological change also generated financial fragility. Once technological change generates productivity gains, there is a tendency for price deflation through competition accompanied by insufficient demand due to the paid labor hours or inputs per unit of product saved (Argitis, 2013).

[3] That is, "an identification of customary business relations, established business patents and copyrights, trademarks, reputation and processes protected by secrecy." (Argitis, 2013, p. 31)

2.1. Economic instability at the current stage of financial institutions

Minsky's (2008b) central criticism of the neoclassical synthesis and the "Patinkin process" is the partial absorption of the involuntary unemployment hypothesis and non-neutrality of money only in the long run. The proposition was flawed theoretically because the model provides no support for understanding endogenous factors that explain economic instability rather than unexpected and irremediable political or climatic "shocks".

The historical-institutional flaw was due to war financing and reconstruction efforts by the core states, there was enormous liquidity due to debt securities of national treasuries practically free of any risk of non-payment, which led to a reduction in the value given to liquidity. For this reason, all types of securitized debt and other innovative financial instruments could be ported for leverage and refinancing. In Minsky's words,

> [e]ach new type of money that is introduced or an old one that is used to a greater extent results in the financing of either some additional demand for capital and financial assets or of more investment. (Minsky, 2008b, p. 199)

In the boom phase of the business cycle, the most heavily weighted share of the economic units of an economy moves from the Hedge[4] position to the Speculative[5] position. This is intuitive because, given the certainty of the return on capital, the higher the leverage, the higher the profit. This scenario evolves into the risky Ponzi position[6].

The exit from a quiet period occurs because, in a Hedge position, the short-term interest rate is lower than the long-term interest rate, which leads to an incentive to leverage the capital goods position in the short term. An increase in the price of capital goods induces the production of more capital goods. In the simplified Minsky assumption, in which capitalists save all income, profits equalize investments. Therefore, inducing the production of capital goods increases the rate of profit and strengthens the Hedge position of demand-driven financial units. This induces financial innovation and the creation of fiat money to finance more positions in capital goods, which leads the economy to Speculative and Ponzi positions.

---

[4] Profits cover the principal and interest of debt.

[5] Profits cover the interest but not the principal, such that the debt needs to be rolled over.

[6] When the income is not able to pay even the interest on the borrowed capital and not only is debt rollup necessary, but its accumulation increases.

In the article, "Financial Fragility in Developing Economics," Foley became known for expanding Minsky's analysis, originally developed for closed economies, to open economies. Open economy models were prevalent in peripheral economies undergoing industrialization processes with good profit opportunities and financial systems which weren't deeply rooted in the 1980s and the 1990s, which led to a flood of foreign capital inflow. The relationship between the intertemporal effects of these capitals and the constant balance of payments deficits is typical of peripheral countries, in which the rate of import growth typical of a boom moment proves incompatible with a long-run balance of payments equilibrium.

This brings us to Kaldor and Thirlwall's consideration of the productive structure and the balance of payments.

3. The Kaldor-Thirlwall law

It was probably in the discussion of the reconciliation between the dependence of economic growth on "natural"[7] productive limits and the primacy of effective demand that Old Institutionalism contributed the most to the end of the Keynesian paradox about the "natural rate of growth".

> As underutilized capacity tends to dampen new capital investment and technological innovation, the path-dependency effect of a slack economy will tend to slow down the rate of growth of productivity for years in perpetuity. The same hysteresis applies when the direction is reversed and utilization rates are above the trend. Social models of productivity thereby suggest a reverse causation from output to labor productivity-rather than the traditional belief that greater labor productivity is a principal source of more industrial throughput. (Lajeunesse, 2004, p. 613)

Robert Lajeunesse works with Veblen's concepts of reserve capacity and endogenous productivity. The institutional consequences of these productivity variations linked to the demand and institutional changes they bring about are synthesized in the concept of cumulative causation. This concept was created by Veblen, recovered and developed by Gunnar Myrdal, and adapted by later Kaldor's analyses.

[7] The natural rate of growth would be limited by the increase in labor (or capital) productivity and by population growth, factors exogenous to the model (Harrod, 1939).

This twist in Kaldor's position regarding endogeneity in the natural rate of growth took place in his famous lecture on the reasons for low growth in England (1966), where the natural rate of growth came to have endogenous factors related to the gains of scope and scale typical of the manufacturing sector: demographic shifts, labor force availability, and cumulative causation considerations. As presented by Marconi et al. (2016), there are two original Kaldor laws.

I. In economies where there is a process of industrialization, the economic "engine of growth" is the excess growth of the manufacturing sector over other sectors.

II. Productivity in the manufacturing sector is only partially dependent on its growth rate. That is, there are gains in manufacturing productivity as the demand for that sector grows beyond the technological change itself.

Kaldor associated these laws with the stages of economic development. They express the internalization of the manufacture of goods at each stage of production and its subsequent export[8]. The need for exports arises precisely because there is insufficient domestic demand to allow for an acceleration of growth sufficient to induce gains of scale and increasing returns. At the stage of development in which capital goods that produce the most dynamic consumer goods are exported, the growth of productivity induces even greater income elasticities of demand for exports. This cycle occurs after the stage of import substitution, generating a cycle of expansion in which imports that allow the catch-up of each new stage of development do not overload the trade balance, as well as the consumption of services and the import of products that increase welfare and raise real income. That is, a healthy economy is mature.

There are also two other “laws” of Kaldor that were not originally covered by him, but were developed by his disciples, the Kaldorians:

III. Dynamic growth in manufacturing absorbs labor from other sectors where there is "idle productivity". Therefore, productivity increases in the manufacturing sector tend to spill over to other sectors of the economy. "Idle productivity" occurs in sectors where there are diminishing returns

[8] Production/export of consumer goods, (stages I and II); production/export of capital goods (III and IV).

to scale, such as agriculture, where the assumption of substitutability between capital and labor is most effective (Thirlwall, 2015).

Here, the entire discussion has caught up with Thirlwall. It has been clear by now that the "maturity" of a society's economy and the pitfalls of "early maturity" are closely related to the demand frontiers estimated by growth under the balance of payments equilibrium: Kaldor's fourth law (or Kaldor-Thirlwall's law).

IV. Thirlwall (1979), a Kaldorian, proposed that national income growth is determined by the ratio between export and import dynamics, that is, by trade balance dynamics. In the long run, trade balance dynamics are limited by the ratio of the respective export and import income-elasticities multiplied by the income growth of the rest of the global economy.

4.2. Thirlwall's law

The Kaldor-Thirlwall law assumes that a country cannot indefinitely sustain a current account deficit thus it must be in equilibrium. Not all countries have balance of payments constraints at the same time, but it is enough that some countries do not have one for others to have one. These considerations account for the fact that peripheral countries often find themselves in the balance of payments equilibrium through external financial or capital accounts. In the discussion that followed Thirlwall and Hussain (1982), this offset was portrayed as the model starting with external financing. The price and income elasticities in determining the volume of imports and exports depends on structural and institutional factors. Taking the dynamic relationships of the current account equilibrium[9], we have

$$(1) \qquad y_{BPC} = \frac{\varepsilon z}{\pi} + \frac{\gamma \dot{q}}{\pi}$$

$$(2) \qquad y_{EF} = \frac{\theta_1 \varepsilon z}{\pi} + \frac{(1-\theta_1) f}{\pi} + \frac{\gamma' \dot{q}}{\pi}$$

where $\gamma = -|1 + \eta + \psi|$, $\gamma' = -|\theta_1 \eta + \psi + 1|$, θ_1 represents the fraction of exports in external account revenue. y_{EF} and y_{BC} represents the growth of domestic output with and

[9] For the development of the equations up to this point, see (Thirlwall and Hussain, 1982). We have: P*EM=PX+PF, X=(P/(P*E))^η Z^ε and M=((P* E)/P)^ψ Y^π. Where X is the volume of exports, F the external financing; η and ψ represent the price elasticities and ε and π the income elasticities of exports and imports, respectively. Z is the annual income of the rest of the world while Y is the annual income of the underdeveloped country being analyzed.

without external financing, respectively. It is not foreseeable that the real exchange rate will fall continuously and indefinitely, and even less so that the Marshall-Lerner condition will prove resilient to such a constant and significant devaluation for long periods due to institutional and structural conditions. Thus,

$$(3) \qquad y_{BPC} = \frac{\varepsilon}{\pi} z$$

$$(4) \qquad y_{EF} = \frac{\theta_1 \varepsilon z}{\pi} + \frac{(1-\theta_1) f}{\pi}$$

As another result of purchasing power parity, $\varepsilon z = x$. Then,

$$(3a) \qquad y_{BPC} = \frac{x}{\pi}$$

$$(4a) \qquad y_{EF} = \frac{\theta_1 x}{\pi} + \frac{(1-\theta_1) f}{\pi}$$

Equation 3a is the popular form in which the Kaldor-Thirlwall law is known simply as Thirlwall's law.

4. Kaldor-Thirlwall's law under the scrutiny of radical institutionalism

We come across the "remarkable durability of Thirlwall's law"[10] (RDTL). However, each small step of the sequence of equations developed above holds enormous institutional consequences that are far from Radical Institutionalism, and they will be analyzed one by one, following the steps of RDTL.

I. The transformation from 2 to 4 accounts for the irrelevance of price elasticity in long-run growth. And the products with the greatest demand dynamics are those that meet ceremonial and instrumental demands; that is, conspicuous consumption and other consumption habits beyond leisure class emulation.

II. The transformation from 4 to 4a gives an account of the degree of subordination of each country's productive structure to the technology developed by the center, which corresponds to the ceremonially defined needs of the center's social structure provisioning.

[10] Whose theoretical meanings and the commensurability of its results have been well discussed by Setterfield (2011) in an article of the same name.

III. The transformation from 4a to 3a accounts for the inability of external financing to allow increasing debt to finance excess imports or change the production structure to a higher ratio of income elasticities without a profit remittance burden.

4.1. Substantive Economics and the income elasticity of exports.

In The Great Transformation, Polanyi (2001) reconstructed the trajectory of the radical institutional change that enabled the industry to become the dynamic axis of the economy. The technological change brought about by the great machines and the beginning of industry led by the great merchant class induced the creation of labor, money, and land markets. The impetus of the state to fence off and privatize land that had previously been available for peasants to plant and gather firewood, the charging of rent for the land that forced peasants to adhere to wage labor or seek opportunities in the cities, and the collapse of regulations and institutions that prevented the shortage of basic products radically disrupted the old social relations that mediated the economic aspect and generated enormous instability of subsistence conditions. However, at the same time, it made the growth of industrial production possible. Polanyi calls this process the disembedding of the economy into society.

Polanyi argued that social democracy, fascism, and socialism were disorderly or authoritarian reactions to re-embed the economy to society. The advent of these transformations associated with large corporations strengthened the guarantees of industry stability and the efforts of coordination between business and the state. This movement of re-embedding the economy into society returned the discretion of society to production, what Polanyi called the "protective reaction", due to a relatively spontaneous reaction that takes place by an immanent character of the normal "primacy of society" to the SE of any society. So, these two movements, first the creation of deregulated markets and then the protective reaction to the freedom of these markets, are synthesized in the concept of "double-movement". (Polanyi, 2001, pt. III)

In terms of planning needs and demand dynamics, the protective reaction inaugurated a new pattern of development as well as a new form of insertion of productive structures in global value chains (GVC). The efforts of Galbraith in his book New Industrial State to point "compulsion, pecuniary compensation, identification and adaptation" (2007, p. 169) as the main motivations by which the firm achieves efficiency matches the studies of John

Munkirs (2020) on the centralization of private credit and planning institutions in the US as part of the explanation for the success of large corporations.

The point here is that this arrangement aims to build stability of prices, wages, inputs, and interests to reduce the unpredictability of the future. This kind of evidence from Munkirs coincides with the institutional analysis of transactions by Karl Polanyi and John Commons (McClintock, 1987). For these authors, the return of a planning instance proved that the growth of redistributive and reciprocity motivations was a mark of the protective social reaction to the de-embedding of the economy in society allowed by market self-regulation. At least at the center, the growth dynamics demonstrated by the prominence of income elasticity rather than price elasticity shows that growth is led by growth in wages rather than profits, since the propensity of the leisure class to consume is, in aggregate terms, much lower than that of the working class. This enables a direct reference to the Kaleckian wage led regime of growth[11].

Therefore, the political economy that allowed planning and income redistribution to take the world economy to a wage-led regime was the same, which made it possible for countries' economic dynamics to be due to income elasticities and not price elasticities, drawing the conditions defended here as being historical-institutional for the resilience of Kaldor-Thirlwall's law. In the later stages of Kaldor's development, the same income distribution requirements were mandatory for economic development. This debate about the wage-led regime and the stage of development arises because of the changes in which economic openness and the degree of economic dependence modify the parameters in which these investment decision habits change (Blecker, 1989).

This dynamic of double-movement explains the durability of these effects of the protective reaction in Kaldor-Thirlwall's law, or the passage from Equation 2 to Equation 4.

4.2. The consumption pattern

Part of the problem with the meaning of "economic development" for institutionalists is the homogeneity of what economic growth means, as presented in the introduction. "Economic growth" is a euphemism for technological diffusion, that is, the diffusion of

[11] It will not be possible to delve into this discussion in this article. See Lavoie and Stockhammer (2013).

problem-solving-oriented habits secured by instrumental values. However, the definition of what is the problem to be solved and how to value whether the solutions given are acceptable are ceremonial definitions, appropriate to the power plots that make up the social structure. The translation of this to our analysis in the international context translates into a center-periphery relationship. On this basis, a very apt quote from David Hamilton is:

> The other aspect [of imperialism] is the diffusion of industrial technology to most of the world. Just as the neolithic revolution once encompassed all of the world with the exception of a few isolated cultures, so did the industrial revolution occurring in Europe over the last nine hundred years. To get the full picture of imperialism, it is essential to understand its technological dimension. [...] What we refer to as economic growth in the underdeveloped world is a euphemism for technological diffusion. (Hamilton, 1991, p. 940)

Therefore, the mere definition of which needs deserve the development of technology to meet them is already incorporated in the discussion of which consumer goods or services will be demanded by an increase in income. A type of consumption emulation that references international social stratification corresponds to an effort to advertise and export ceremonial values exported alongside the consumer goods themselves. Thus, economic growth across the national boundaries reproduces international hierarchical and status differences through acculturation and propaganda.

Beyond the ceremonial discussion above, there is an instrumental issue linked to the standardization of production and exports. This is reflected in both conventions and standardization concerning inputs, parts, computerized systems, security protocols, and measurement systems that will require adaptation or even make production unfeasible in a country or region that needs to import inputs or capital goods. The same standardization also occurs in common consumer goods, or according to Veblen, standardized consumer goods (Salles and Camatta, 2017). It is easy to assume that the same transfer of standardized consumption habits can be transmitted through a center-periphery process. These consumption habits define which productive structures the process of import substitution and export of manufactured goods should be pursued.

This institutional process emulates conspicuous consumption and standardizes imported consumer and capital goods, which defines how the income elasticity of imports π will behave and which production structure will transform equation 4 into 4a, that is, $x = \varepsilon z$.

4.3. External financing.

The condition for growth under external financing is greater than that without external is $f \geq x$. The takeaway from this condition is that capital inflows must be permanently high to achieve growth above the y_{BPC} of payments in the long run. In an attempt to establish a stability parameter for the model avoiding the external debt crisis, McCombie and Thirlwall (2016, chap. III) limited the deficit-GDP ratio, utilizing an equilibrium condition for the purpose.

$$(5) \qquad F/k = Y \rightarrow f = y_{EF} \rightarrow y_{EF} = \frac{\theta_1 x}{\pi - (1-\theta_1)}$$

This means that the greater the share of external debt borne by external lenders, the greater the possibility of growth beyond the y_{BPC}. This result would be a surprising solution to the underdeveloped countries' dilemma if it were not for two issues.

I. The first realizes the error of not considering the payment of interest, dividends, and profit remittances, as pointed out by Ferreira and Canuto (2001) and, similarly, Barbosa-Filho (2001) and Moreno-Brid (2003). Including interest, dividends, and remittances of domestic and foreign profits, we have[12]

$$(6)\ y_{BPC2} = \frac{\theta_1 x + (1-\theta_1) IDP_x - (1-\theta_2) IDP_m}{\theta_2 \pi}$$

where θ_2 is the share of IDP_M in total foreign expenditure. Here, the growth scenario above the current account constraint is relaxed and becomes a conjunctural discussion.

II. The second accounts for the arbitrariness of the "external deficit"/"income" ratio, which prevents a foreign debt crisis.

The institutional consequences of these two points help recover the entire Minskyan discussion introduced in Section 3 into a Thirlwall-Minsky model in addition to other institutional caveats.

4.3.1. External debt and financial fragility

As discussed in the previous sections, there is a subordinate mode of insertion of peripheral countries in GVC as one of the determinants of underdevelopment. This is

[12] From Ferreira e Canuto (2001). Where IDPM and IDPX are interest, dividends, and profit remittances to and from abroad, respectively.

expressed by the low growth in the long run, which is supported by the trade balance given by the productive structure that sometimes stimulates the export of products with low income elasticity and sometimes stimulates the import of products with high-income elasticity. This means that in a global boom period, imports grow more than exports do, as in the case of semi-industrialized countries such as Brazil and Mexico (Moreno-Brid et al., 2006, p. 369).

In situations where base interest rates are low in central countries, international portfolio investors find local banks willing to leverage foreign currency for foreign investment, exchange governments, and private debt securities. This strengthens the security and prices of local financial and tangible assets. The higher income elasticity of imports from peripheral countries also accounts for the higher propensity to import capital goods.

Numerous fronts reinforce financial innovations, delay the need for a domestic interest rate hike trajectory, and increase the profitability of domestic assets: the foreign currency leverage of firms that, because of the good business climate and liquidity of the international reserve currency, decide to import capital assets; the speculative flow that finds local banks willing to leverage themselves to buy assets in international markets; the capital good producers that expand their production by importing part of the capital based on a secure speculative capital goods price position and domestic reserves; and the state, which finds itself unburdened to sustain large deficits to maintain the rate of profits[13]. Arestis and Glickman (2002) note that the financial instability condition gains a layer of uncertainty over the exchange rate[14] in an open economy model and suggest naming as "over-speculative" those financial units that take a speculative position in foreign currency directly.

A good example of the formalization of the discussion above is the work of Porcile et al. (2003), which integrates the Kaldor-Thirlwall models with Minsky's financial fragility in an open economy. They use the Foley (2001) formalization and start from a stylized fact similar to our description of a period of foreign indebtedness in Latin American countries in the early 1990s that led to successive debt crises. Porcile et al. (2003) calculated two different equilibrium scenarios in developing the boom scenario described above.

[13] See Minsky (2008b, p. 168).
[14] Or the level of international reserves, in the case of a fixed exchange rate.

In this scenario, they modeled a limit to the debt-generating crisis as the interest rate necessary for the government to control the level of activity and the attraction of external capital, which reduces the leverage that does not yet represent the risk of non-payment of debt–the so-called risk perception. In a system in which most economic units are in a speculative or Ponzi condition, the degree of leverage is such that an increase in short-term interest rates is no longer able to attract foreign capital due to an increase in the perception of risk, which generates a credit crisis.

They conclude that the non-speculative equilibrium point, given the considerations regarding the balance of payments, implies that the macroeconomic dynamics of growth in underdeveloped countries with the balance of payments balanced by external financing is unstable.

An important lesson drawn from the impossibilities of the free capital market to allow or engage in changes in the production structure in a financially sustainable way is the need for planning and economic stability in the gestation of more capital-intensive projects. Minsky (2008b, pp. 184–86) relates the stabilizing effect of public deficits on the cash flows expected by highly indebted firms from capital-intensive adoption to the minimal effort required by a large government to generate these deficits. In the case of the global business cycle, the government must also have a large international reserve currency. None of these characteristics is typical of peripheral countries that would depend on the flexibility of international finance, which is also not typical in times of global crisis, to maintain investments.

Therefore, it makes no sense under this Thirlwall-Minsky framework to think that the condition of peripheral countries allows, under the normal hierarchy of the institutions of global economic integration, a long growth period sustained by an ever-increasing flow of capital before a debt crisis is imposed by the world economic cycle. If the country in question is fully able to guide the interest rate on the foreign loans it receives this condition can be relaxed. It is not the case for the periphery.

4.3.2. Non-market development institutional relations

Despite the above discussion, we know that there have been late developments. These experiences happened precisely because the arbitrariness of the relationship of "external deficit"/"income" and the critical interest rate that prevents a foreign debt crisis are institutional parameters. Thus, extra-market, institutional relations, and motivations

enable these experiences. The motivations for exercising economics are not exclusively those of exchange or those linked to individual and immediate desires. The nature of the transaction for Polanyi can be divided into three motivations, which need brief clarification. Opening quotation marks to Polanyi,

> Reciprocity denotes movements between correlative points of symmetrical groupings; redistribution designates appropriational movements toward a center and out of it again; exchange refers here to vice versa movements taking place as between "hands" under a market system. Reciprocity, then, assumes for a background symmetrically arranged groupings; redistribution is dependent upon the presence of some measure of centricity in the group; exchange in order to produce integration requires a system of price-making markets. (Polanyi, 1992, p. 35)

These motivations occur in all social formations, from primitive and archaic societies to modern societies. The contradiction is that the sui generis way in which one of the motivations, mercantile exchange, dared to organize the whole social fabric by employing a market society but did not eliminate the motivations of reciprocity and redistribution in economic transactions. The combination of the Polanyian conception of transactions and his reading of the historical change of the twentieth century realizes that the nature of transactions that allowed late industrialization (or development by “invitation”) or the reconstruction of the productive parks that were destroyed in World War II were not those of the free market (Heins et al., 2018).

5. Conclusions

What is mysterious in any of the experiences we pose here is the significance of development and, in turn, center-periphery dynamics, such as instrumental and ceremonial diffusion. This means that the technological diffusion of the industry is exported either through consumer goods or capital goods, in conjunction with the institution of the self-regulated market. The reverse would also be a priori true: a process of development rather than underdevelopment of the periphery will either mean the complete ceremonial encapsulation of the periphery's habits of thought or the export of other social structures from the periphery to a truly global community. The conclusions here resemble a warning by Carlos Medeiros about methodological nationalism, which seems to be a certain vice of part of the post-Keynesian school, "imperialism, as in Marx's

classic analysis of the colonization of India by England, was not only based on exploitation but constituted an instrument of the diffusion of capitalism and its productive forces among backward regions" (2010, p. 640). In other words, this post-Keynesian Institutionalism analysis cannot miss the radical critique of orthodox economic development as an enabling myth, a power plot exercised by force and fraud.

Beyond this more general consideration, we can summarize the main lessons that this still incipient proposal of symbiosis between these two heterodox schools was able to present us:

I. The prominence of effective demand addressed by a radical PKI presents a huge and still unexplored field of applied studies by these schools of economic thought.

II. Society's protective reaction against the free market has introduced a new model of global economic development that privileges the production of consumer goods and capital goods aimed at meeting the usual needs related to increasing income.

III. These needs are institutionalized and diffused from a center-periphery dynamic. With the export of consumer and capital goods, institutional patterns of industrial equipment, a ceremonial hierarchy of products (similar to the typical emulation of conspicuous consumption), are also exported.

IV. The global free market is not capable of leading an economy through the stages of development predicted by Kaldor and freeing it from a center-periphery relationship. Besides being an enabling myth, the market is also an institution that reproduces the relations of hierarchy-exercised coercively by other institutions.

V. Allowing open capital accounts inserts the national economy into cycles of the global economy, generates even more acute processes of financial fragility, and deepens the dynamics of the external debt boom and crisis.

VI. Motivations extra-mercantile were responsible for the late development and economic reconstruction. Redistribution and reciprocity relations of political-economic groups or blocs can alter the discretionary parameters of the foreign debt/GDP ratio, technological transfer, monetary loan conditions, and the possibility of market for "developing" country exports.

REFERENCES

Arestis, P. and Glickman, M. 2002. Financial crisis in Southeast Asia: dispelling illusion the Minskyan way, *Cambridge Journal of Economics*, vol. 26, no. 2, 237–60

Argitis, G. 2013. Veblenian and Minskian financial markets, *European Journal of Economics and Economic Policies: Intervention*, vol. 10, no. 1, 28–43

Blecker, R. A. 1989. International competition, income distribution and economic growth, *Cambridge Journal of Economics*, Advance Access published September 1989: doi:10.1093/oxfordjournals.cje.a035100

Canuto, O. and Luiz Ferreira, A. 2001. Thirlwall´s law and foreing capital in Brazil, *Revista Momento Económico*, vol. 0, no. 125

Dillard, D. 1987. Money as an Institution of Capitalism, *Journal of Economic Issues*, vol. 21, no. 4, 1623–47

Dugger, W. M. 1989. Instituted Process and Enabling Myth: The Two Faces of the Market, *Journal of Economic Issues*, vol. 23, no. 2, 607–15

Dugger, W. M. and Waller, W. 1996. Radical Institutionalism: From Technological to Democratic Instrumentalism, *Review of Social Economy*, vol. 54, no. 2, 169–90

Foley, D. 2001. Financial fragility in developing economies, *New York School University*, Advance Access published 2001

Galbraith, J. K. 2007. *The new industrial state*, The James Madison library in American politics, Princeton, N.J, Princeton University Press

Hamilton, D. 1991. The Meaning of Anthropology for Economic Science: A Case for Intellectual Reciprocity, *Journal of Economic Issues*, vol. 25, no. 4, 937–49

Harrod, R. F. 1939. An Essay in Dynamic Theory, *The Economic Journal*, vol. 49, no. 193, 14–33

Heins, V. M., Unrau, C., and Avram, K. 2018. Gift-giving and reciprocity in global society: Introducing Marcel Mauss in international studies, *Journal of International Political Theory*, vol. 14, no. 2, 126–44

Kaldor, N. 1966. *Causes of the slow rate of economic growth of the United Kingdom: an inaugural lecture.*, London, Cambridge University Press

Kalecki, M. 1943. Political aspects of full employment, *The Political Quarterly*, vol. 14, no. 4, 322–30

Lajeunesse, R. M. 2004. Keeping Labor Productive: Veblen's Notion of Reserve Capacity and Procyclical Productivity Analysis, *Journal of Economic Issues*, vol. 38, no. 3, 611–27

Lavoie, M. and Stockhammer, E. 2013. Wage-led Growth: Concept, Theories and Policies, pp. 13–39, in Lavoie, M. and Stockhammer, E. (eds.), *Wage-led Growth*, London, Palgrave Macmillan UK

Marconi, N., Reis, C. F. de B., and Araújo, E. C. de. 2016. Manufacturing and economic development: The actuality of Kaldor's first and second laws, *Structural Change and Economic Dynamics*, vol. 37, 75–89

McClintock, B. 1987. Institutional Transaction Analysis, *Journal of Economic Issues*, vol. 21, no. 2, 673–81

McCombie, J. and Thirlwall, A. P. 2016. *Economic Growth and the Balance-Of-Payments Constraint*, London, Palgrave Macmillan Limited

Medeiros, C. A. 2010. Instituições e desenvolvimento econômico: uma nota crítica ao 'nacionalismo metodológico', *Economia e Sociedade*, vol. 19, no. 3, 637–45

Minsky, H. P. 2008a. *John Maynard Keynes*, New York, NY, McGraw-Hill

Minsky, H. P. 2008b. *Stabilizing an unstable economy*, New York, [NY], McGraw-Hill

Moreno-Brid, J. C., Gallardo, J. L., and Anyul, M. P. 2006. Financial fragility and financial crisis in mexico, *Metroeconomica*, vol. 57, no. 3, 365–88

Neale, W. C. 1987. Institutions, *Journal of Economic Issues*, vol. 21, no. 3, 1177–1206

Polanyi, K. 1977. *The livelihood of man*, (H. W. Pearson, Ed.), Studies in social discontinuity, New York, Academic Press

Polanyi, K. 1992. The economy as instituted process, in Granovetter, M. S. and Swedberg, R. (eds.), *The Sociology of economic life*, Boulder, Westview Press

Polanyi, K. 2001. *The great transformation: the political and economic origins of our time*, Boston, MA, Beacon Press

Porcile, G., Curado, M., and Bahry, T. 2003. Crescimento com Restrição no Balanço de Pagamentos e 'Fragilidade Financeira' no Sentido Minskyano: uma Abordagem Macroeconômica para a América Latina, in ANPEC - Associação Nacional dos Centros de Pós-Graduação em Economia [Brazilian Association of Graduate Programs in Economics]

Salles, A. O. T. and Camatta, R. B. 2017. Para além do consumo conspícuo: a teoria do consumo de Thorstein Veblen em A Teoria da Classe Ociosa e em The Theory of Business Enterprise, in Salles, A. O. T., Pessali, H. F., and Fernández, R. G. (eds.), *Economia institucional: fundamentos teóricos e históricos*, São Paulo, Editora UNESP

Setterfield, M. 2011. The Remarkable Durability of Thirlwall's Law, *SSRN Electronic Journal*, Advance Access published 2011: doi:10.2139/ssrn.1856696

Thirlwall, A. P. 1979. The Balance of Payments Constraint as an Explanation of International Growth Rate Differences, *BNL Quarterly Review*, vol. 32, no. 128, 45–53

Thirlwall, A. P. 2011. Balance of payments constrained growth models: history and overview, *PSL Quarterly Review*, vol. 64, no. 259

Thirlwall, A. P. 2015. Testing Kaldor's Growth Laws across the Countries of Africa, pp. 339–51, in *Essays on Keynesian and Kaldorian Economics*, London, Palgrave Macmillan UK

Thirlwall, A. P. and Hussain, M. N. 1982. The Balance of Payments Constraint, Capital Flows and Growth Rate Differences between Developing Countries, *Oxford Economic Papers*, vol. 34, no. 3, 498–510

Veblen, T. 2007. *The theory of the leisure class*, Oxford world's classics, Oxford ; New York, Oxford University Press Inc

Veblen, T. 2016. *The theory of business enterprise*, Carbon Books

Whalen, C. J. 2020. Post-Keynesian institutionalism: past, present, and future, *Evolutionary and Institutional Economics Review*, vol. 17, no. 1, 71–92

Wray, L. R. 2016. *Why Minsky matters: an introduction to the work of a maverick economist*, Princeton, New Jersey, Princeton University Press