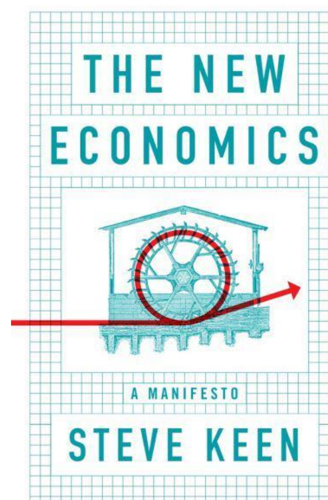
The Emerging Alternative to the Disasters of Neoclassical Theory

a review of

The New Economics: A Manifesto

By Steve Keen (2022)



This outstanding little book is a primer on how to overturn mainstream economics by modeling the complexity of the real world. This replaces the bogus assumptions of neoclassical theory, yielding a post-Keynesian macroeconomics that predicts financial crises and other nonlinear behavior. Keen himself won an award for constructing a simple 3 variable nonlinear model that foretold the financial crash of 2008 long before it happened, whereas elaborate mainstream models, all based on linearity and equilibrium concepts, failed spectacularly.

In this book Keen also outlines the absurdity of the Nordhaus approach to projecting the economics of climate change, including the ludicrously false assumptions which ignore climate tipping points, but are all too typical of neoclassical theory. He has assembled resources for students of economics and others to learn this New Economics especially the concepts of System Dynamics, Modern Monetary Theory, and Biophysical Economics. And forget microeconomics – Keen's macroeconomics is "emergent", not "reductionist" - microeconomics must fail due to the nonlinearities of complexity.

Overviews of the associated mathematics of complexity and of software are included, Keen's own Minsky program being the prime example. Minsky is especially user friendly for financial modeling,

incorporating double entry bookkeeping, or “Godley Tables”, but which can be used for any kind of system dynamics. The famous limits-to-growth studies of the 1970s signaled a breakthrough of system dynamics into the social sciences. This is still some of the best mathematical economics ever produced in my judgment despite its head-in-the sand rejection by Nordhaus and others.

Keen uses simple Godley Tables to show how the banking system prints digital money to create private debt and how fluctuations of this debt drive modern financial booms and busts, not public debt: “The government does not borrow from the private sector when it runs a deficit. Instead, as deficit creates debt-free money for the private sector” (p 45) – the exact opposite neoclassical doctrine.

The lesson, still ignored, is obvious: government “should stop the level of private debt from getting too high, and credit-based demand should not be allowed to become too large a component of aggregate demand” (p 59). He even describes how to do a “modern debt jubilee” to reduce today’s exorbitant levels of debt and at the same time deleverage housing and other speculation.