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Abstract

In a recent article, Tom Palley begins his critique of Keynesian economics with the well-known story of a drunkard who, when searching for his lost keys, looks not in the darkness of the nearby lawn where he misplaced them, but instead under the light cone of a lamp post because, when asked, he replies that's where the light is. This story serves as a metaphor for the field of economics attempting to understand the workings of the capitalist economy solely through the lens of Keynesian economics. However, this endeavour is ultimately futile as comprehending capitalism requires a different analytical approach: acknowledging social conflict as an essential component of capitalism's nature better addressed by Kaleckian macroeconomics.

I attempt to illustrate that Palley is accurate in emphasizing the paradigmatic differences and even incommensurabilities between Keynes' monetary production paradigm and the Marxian-Kaleckian social conflict paradigm. This suggests that any classification under the umbrella term "post-Keynesianism" is misleading. However, Palley is mistaken in his assertion that this distinction aligns Keynes' economics with neoclassical (mainstream) economics, as the acceptance or rejection of social conflict is not the only fault line in terms of ontology. There are other ontological divisions that can exist. Or, to use the metaphor, the lamp post can be moved to different areas of the lawn, indicating different ontological perspectives.

JEL codes: A 14, B 40, B 51, E 11, E 12

Key words: Keynes, social conflict, effective demand, monetary production

1. *The General Theory* – misleading guide to capitalism and stagnation?

In a recent article, Tom Palley (2023; henceforth TP) begins his scathing critique of Keynesian economics with the well-known story of a drunkard who, when searching for his lost keys, looks not in the darkness of the nearby lawn where he misplaced them, but instead under the light cone of a lamp post because, when asked, he replies that's where the light is. This story serves as a metaphor for the field of economics (the drunkard) attempting to understand the workings of the capitalist economy (the keys) solely through the lens of Keynesian economics (the lamp post). However, this endeavour is, according to Palley, ultimately futile as comprehending capitalism requires a different analytical approach (searching on the lawn where the keys are actually lost): acknowledging social conflict as an essential component of capitalism's nature better addressed by Kaleckian macroeconomics 'which provides a natural avenue for putting conflict and power in the picture and connects with the important research agenda pioneered by Bowles and Gintis' (TP, 24).

Palley rejects to make use of and to refer to misguided Keynesian economics, whose '"original sin" (is) Keynes' denial of conflict in capitalist economies' which, as he argues, 'has driven changes in income distribution, economic organization, and economic policy that are the root cause of the stagnation problematic' which 'Keynes' economics is unable to explain' (TP, 8) and which 'has kept economics locked into a false conception of capitalism' (TP, 9) because it 'shares much in common with Neoliberalism and Keynes can reasonably be viewed as a modern compassionate (Third Way) Neoliberal' (TP, 29).

One could challenge Palley's assessment of the economic profession being dominated by Keynes' economics (the lamp post providing the light cone for the search for the keys) as completely misguided. Keynes' economics, as represented by heterodox post-Keynesianism, is entirely marginalized in the economics profession. On the other hand, Keynesian economics, which encompasses various variants within the mainstream, is often inaccurately associated with Keynes' ideas[1]. The neo- and new Keynesians are not only aware of this misrepresentation but also attribute the blame to Keynes himself for the confusion surrounding his ideas[2]. The fact that Palley does not clearly distinguish between Keynesian economics and Keynes' economics, despite there being a significant distinction and incompatibility between Keynesian economics as part of mainstream economics and the economics of Keynes as a cornerstone of heterodox economics, suggests that he does not consider them relevant to his critique. It is important to stress that the perspective one takes on a topic determines the mode and degree of sophistication and subtlety of analysis. In Palley's case, it appears that he does not find it necessary to differentiate between Keynesian and Keynes' economics when criticizing analytical flaws. It is worth noting that Keynes himself

[1] Which is why these approaches are often dubbed as 'bastard Keynesianism' using Joan Robinson's slightly unceremonious label.

[2] As Gregory Mankiw (1992: 560) bluntly formulated: 'New Keynesians view their work as following in the broad tradition that evolved from Keynes, but their goal is to explain the world, not to clarify the views of one particular man. If new Keynesian economics is not a true representation of Keynes's views, then so much the worse for Keynes.'

may not have felt the need to emphasize social conflict when his primary focus was strictly on the core constituents of capitalist economics. We will revisit this consideration later.

The purpose of the paper is not to dispute every single critical statement[3] made by Palley[4], nor to focus solely on the initial motivation of his article, which 'is an exercise in the history of economic thought' (TP, 8). Likewise, the intention is not to contrast Palley's view of John Maynard Keynes as a liberal defender of capitalism who obstructs more transformative societal paths[5]. Instead, the aim is to address the second motivation put forth by Palley, which 'is to loosen Keynes' grip on economics' (TP, 8), i.e., to challenge and diminish Keynes' influence on economics.

Firstly, I will attempt to analyse Palley's critique in a paradigmatic manner, in order to understand why he emphasises Keynes' purported neglect of conflict, despite the presence of textual evidence suggesting otherwise. Secondly, I will argue that the keys to understanding Keynes' economics can indeed be found within the realm illuminated by the lamp post, once the metaphorical drunkard (representing prevailing economic thought) sobers up and realizes that they have been focusing on the wrong lamp post for far too long.

2. Paradigms in economics

Palley acknowledges Keynes' contributions in recognizing effective demand as the central mechanism in capitalist economies, determining levels of economic activity and growth. However, he criticizes Keynes for his technocratic approach to the (lack of) effective demand rather than highlighting the conflicting nature of the social processes underlying capitalism. According to Palley, Keynes' monetary explanation of the interest rate, which denies the self-regulatory process inherent in mainstream economics, is not the "deep" cause of stagnation but merely a "surface" cause (TP, 9). Therefore, Palley argues that it does not provide an adequate explanation for the stagnant nature of capitalism:

> *Keynes' schema of capitalism has been challenged by both subsequent institutional developments and by identification of technical shortcomings (e.g., his theory of consumption). The focus here is subsequent institutional developments that substantially solve the problematic of animal spirits and the failings of the interest rate mechanism which were identified in* The General Theory*, yet capitalism's*

[3] Just one statement should be singled out for annotation: 'Some Post Keynesians hold that Keynes (1936) did not subscribe to either an aggregate production function (…) or the Neoclassical marginal product of capital. To this author, that is not correct. Keynes (1936, chapter 11) sought to emphasize that the MEK (marginal efficiency of capital, A.H.) is a future oriented construct that depends on expectations, which in turn are formed in a world of fundamental uncertainty. However, the MEK remains a fundamentally Neoclassical concept whereby it declines with capital-deepening' (TP, 30). This statement is disturbing because it confuses the neoclassical concept of marginal productivity based on capital deepening with the Keynesian concept of marginal efficiency based on capital widening (see Heise 1990).

[4] Engaging in a discussion about Palley's contribution is not solely an academic exercise, but it also recognizes the fact that Palley, given his extensive publications on related topics (see e.g., Palley 1996, Palley 1997, Palley 1998a, Palley 1998b, Palley 2002), is widely regarded as an esteemed advocate and expert on Keynes' economics. As a result, his arguments and perspectives hold significant weight and should be treated with seriousness and consideration.

[5] Withdrawing from commenting on these views does not imply that I share them. However, I believe that the significance of assessing one's political views in relation to their theoretical or paradigmatic approach is not convincing enough for me to pursue such an endeavor.

macroeconomic problems persist. That suggests something is amiss with Keynes' analysis (TP, 17).

The institutional developments he refers to are the following:

- Big government
- The technocratic corporation
- Central bank interest rate targeting

The concepts of "big government" as formulated by Hyman P. Minsky (1986) and the "technocratic corporation" as described by John Kenneth Galbraith (1967) can indeed contribute to reducing the volatility of economy-wide expenditures and cash flows. These institutional developments may serve to stabilize an economy. However, it cannot be expected or demonstrated analytically that they have a significant impact on what Keynes considered to be more important: reorienting the trajectory of economic growth towards achieving full employment and full capacity utilization[6]. Contrary to neoclassical interpretations since Hick's seminal paper as "economics of depression" (see Hicks 1937, Bibow 2020), Keynes' *General Theory* was primarily concerned with providing a fundamentally different explanation of the general process of social provisioning rather than business fluctuations.

Keynes' notion of an unemployment equilibrium(!) or an accumulation process persistently below full employment fundamentally contradicted the neoclassical (mainstream) economic theorizing that relied on the principles of Say's and Walras' laws (see e.g. Heise 2017)[7]. Furthermore, while inflation-targeting policies implemented by central banks have contributed to stabilizing expectations and economic fluctuations, there is substantial analytical (Heise 2006, Atesoglu/Smithin 2014) as well as empirical evidence (such as the case of Japan since the 1990s or the experiences of the EU since the introduction of a common currency in 1999; see e.g. Heise 2008) indicating that such policies are ineffective in addressing the effective demand issues inherent in capitalist economies.

Therefore, Palley's conclusion that the unresolved problems of capitalist economies, despite institutional developments, highlight the flawed nature of Keynes' characterization of capitalism (see TP, 19), is either insufficient or demonstrates a misunderstanding of Keynes' intention. Keynes sought not to provide another theory of business fluctuations but rather to bring about a paradigmatic shift away from neoclassical (mainstream) economics.

2.1 Social conflict as paradigmatic shift

Palley's critique extends beyond claiming that Keynes failed to adequately decipher the laws of motion of capitalism. He also argues that Keynes' approach does not, contrary to Keynes' own assertion, entail a paradigmatic shift away from mainstream economics. Palley supports

[6] According to Heise (2022), it can be demonstrated that a capitalism built on "technocratic corporations" may exhibit greater volatility and lower growth dynamics compared to a capitalism driven by the entrepreneurial "animal spirits" of owners.

[7] According to Robert Clower (1965: 111), an economic theory that aims to bring about a paradigmatic shift must be capable of challenging Walras' law. In other words, any theory that relies on Walras' law has 'nothing fundamentally new to add to orthodox economic theory'.

this judgment by highlighting Keynes' alleged reformist acceptance of the capitalist system and his rejection of Marxist analysis (TP, 19f.).

According to Palley's narrative, the introduction of social conflict and power into economic analysis becomes the crucial step toward a new economic paradigm that surpasses mainstream economics, encompassing both Keynes' and Keynesian economics. This narrative is built on two assumptions:

- In the *General Theory*, Keynes did not provide an alternative paradigmatic foundation
- Social conflict and power are absent in Keynes' (and mainstream) economics.

According to Imre Lakatos, the renowned philosopher of science, paradigms (referred to as "scientific research programs" by Lakatos) are characterized by three distinct dimensions: the epistemological, the methodological, and the ontological dimension. As the field of economics evolved into a positive science, a consensus emerged regarding the adoption of a shared methodology as a "quality control device."

The epistemological dimension encompasses the core axioms of a paradigm, which cannot be discarded without contradicting the paradigm itself, as well as the auxiliary assumptions that shape different variations within the paradigm.

Lastly, the ontological dimension pertains to the assumed nature of the object of investigation, in this case, the pre-analytical vision of capitalism. The ontological dimension of a paradigm is particularly susceptible to criticism, as it cannot be disproven, yet it encompasses the fundamental constituents of the object of study, which are reflected in the core and auxiliary assumptions within the epistemological dimension.

In light of the aforementioned framework, Palley's emphasis on social conflict and power, along with his assertion that Keynes overlooked this aspect, becomes more plausible. Palley considers social conflict and power to be the core components, or the "deep cause," of his Marxian-Kaleckian paradigm. In contrast, Keynes' perspective regards social conflict, although he does not deny its existence, as merely one aspect of capitalism, similar to market-based exchange relations. Palley refers to this as a "surface cause." Thus, Keynes' economics, like neoclassical (mainstream) economics, diminishes the significance of social conflict by relegating it to a non-core feature. As a result, Keynes' economics and neoclassical economics can be seen as amalgamated into a single paradigm.

Giving credit to Palley's emphasis on social conflict and power does not imply that this feature alone constitutes an alternative paradigm, nor does it suggest that it is the sole feature capable of constituting an alternative paradigm and, therefore, would imply that all other approaches can be summarized under the mainstream paradigm.

Table 1: Economic paradigms and their features

	Neoclassical (mainstream) economics	Keynes' economics	Marxian-Kaleckian economics
Core constitutent(s) (deep causes)	Market / Exchange relations	Nominal obligations / Creditor-debtor relationships	Social conflict / Power relations
Further features (surface causes)	<u>Obligations</u>: intertemporal allocation <u>Social conflict</u>: market-based competition	<u>Exchange relations</u>: temporal allocation <u>Social conflict</u>: personal income distribution and industrial relations	<u>Exchange relations:</u> Temporal allocation; market-based exploitation <u>Obligations:</u> intertemporal exchange
Characteristic/ outcome	• Stable • Harmony of interests • Self-regulation • Acceptance of Say's and Walras' law Orientation: allocation	• Sub-optimal (permanent unemployment); • Unstable • Stagnating • Rejection of Says's and Walras' law Orientation: Social provisioning	• Exploitation (functional income distribution) • Unstable • Stagnating/ self-destructive Orientation: Functional income distribution
Paradigm	Real exchange paradigm	Monetary production paradigm	Social conflict paradigm

Let's begin with the latter statement: Table 1 presents a comparison of various characteristics of different economic paradigms. In neoclassical (mainstream) economics, the market is considered the core element of capitalism, where agents engage in the exchange of goods, services, and factors of production (or their services) based on the principles of utility maximization. The standard approach within this paradigm, which is prevalent in the economics profession as Palley argues for Keynes' economics, assumes that "complete" markets lead to optimal allocation and predicts a stable, harmonious outcome through self-regulation based on Say's and Walras' laws. Social conflict and power are marginalized as they are seen as factors related to market-based competition.

Palley's Marxian-Kaleckian paradigm, in contrast, considers social conflict and power as fundamental elements. Within this framework, the primary focus is on functional income distribution, specifically the struggle between profit and wage shares of output, which is seen as the driving force behind unstable and stagnating economic development. Ultimately, this paradigm suggests that such dynamics may even lead to the eventual collapse of the capitalist system. Markets, in this perspective, are viewed as suboptimal allocation mechanisms and sites where the exploitation of laborers, who are considered powerless, becomes evident. The implications of this paradigm for the validity of Say's and Walras' laws remain uncertain[8].

Table 1 highlights the existence of additional economic paradigms that do neither consider social conflict nor market-based exchange relations as core constituents, but instead focus on nominal obligations, i.e., creditor-debtor relationships. In this pre-analytic vision, the emphasis is not on market-based allocation but on obligation-based social provisioning driven by the willingness of wealth owners to part with liquid assets and investors to become indebted. The outcome is an unstable, sub-optimally performing economy that may not necessarily collapse in the end. Say's and Walras' laws are refuted within this framework, as argued by Heise (2019). In this understanding of capitalism, markets serve as allocative mechanisms, while social conflict primarily influences personal income distribution rather than functional income distribution. While both features are important, they are not considered "deep causes." There is textual evidence (see e.g., Keynes 1979a, Keynes 1979b, 1979c) suggesting that Keynes had such a paradigm in mind when writing the *General Theory* as a "monetary theory of production," and this interpretation is known as "fundamental Keynesianism"[9].

What the above suggests is that Palley's first assumption that Keynes did not provide an alternative paradigm in his *General Theory*, cannot be sustained and, hence, Palley's amalgamation of neoclassical (mainstream) and Keynes' economics into one – the dominant – paradigm is unfounded. Keynes was certainly not

> *trapped in a classical liberal construction of the economy that prejudiced his view of capitalism, thereby making* The General Theory *a work of "rescue" as much as a work of "critique" (TP, 20).*

Indeed, refuting Palley's arguments does not imply that Keynes' economics are immune to criticism, nor does it confirm that his pre-analytic vision accurately represents the core constituents of capitalism. Additionally, it does not deny that social conflict and power should receive a broader focus within Keynes' economics.

This brings us to Palley's second statement regarding the significance of social conflict in understanding the economics of capitalism. According to Palley, social conflict and power serve as the "deep causes" behind the lack of effective demand, leading to economic

[8] While it is true that Marx explicitly rejected Say's law, there is ongoing debate within the realm of Marxian economics regarding the extent to which this rejection aligns with the analytical foundations of Marxian theory. Scholars and economists hold different perspectives on this matter, and it remains an open discussion within the field; see e.g., Trigg (2020). Moreover, rather than refuting Walras' law, Kaleckian economics offers a different analytical framework that complements and expands upon the traditional neoclassical approach questioning its status as 'heterodox'.

[9] Palley (2002: 24ff:) also refers to 'fundamentalist Keynesian macroeconomics' – however, it appears that his notion of 'fundamentalist Keynesianism' is not identical to the notion established in the literature; see Coddington (1976), Heise (2019), Davidson (2003/2004: 263).

stagnation and potential collapse, which he believes cannot be saved within the framework of capitalism. Palley argues that functional income distribution is shaped by social conflict and the power dynamics between different social classes. However, it is important to note that the long-term changes in functional income distribution are still a topic of debate (see e.g., Charpe/Bridji/McAdam 2019, Grossman/Oberfield 2020), and various Marxian-Kaleckian wage- and profit-led regime approaches have shown mixed and inconclusive effects on output, growth, and employment and the impact on effective demand to be certainly small (see Heise 2020, 44). These approaches have not been able to consistently demonstrate a systematic deviation from the predictions of neoclassical (mainstream) economics, which are already accounted for in various forms of market failures within its framework[10].

2.2 Conceptualising social conflict as 'deep cause'

The above argument questions whether the Marxian-Kaleckian approach emphasized by Palley, which focus on social conflict and power, truly represent an alternative paradigm or should be viewed as another variant within the neoclassical (mainstream) paradigm. Additionally, it raises the question of whether Keynes' economics can be effectively integrated with the Marxian-Kaleckian approach by incorporating issues of social conflict more comprehensively. This debate revolves around the compatibility and distinctiveness of these economic frameworks and their ability to provide a comprehensive understanding of capitalist economies.

Social conflict and power play significant roles in economic theorizing, although they may not always be explicitly labelled as such. Social conflict refers to situations where economic agents interact while pursuing different interests. When interaction is intentionally sought, it implies the presence of a common objective; otherwise, it would be considered authoritarian. This distinction between conflict with a common objective and conflict without one can be described as "non-antagonistic conflict" and "antagonistic conflict," respectively.

Palley attributes importance to "antagonistic conflict" as the "deep cause" of capitalism, while recognizing that Keynes primarily focused on "non-antagonistic conflict" in his *General Theory*. However, if we associate "antagonistic conflict" with authoritarianism, it may not be applicable to liberal societies that are supposed to be free from oppressive forces that coerce economic agents into undesired cooperation.

Palley defines "antagonistic conflict" as 'structural (e.g., class conflict) … that cannot be resolved without structural change' (TP, 30). In doing so, he aligns himself apparently with Marx' ideology:

> *In the social production of their existence, men inevitably enter into definite relations, which are independent of their will, namely the economic structure of society, the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness. The mode of*

[10] Of course, variants of neoclassical (mainstream) economics have incorporated many kinds of imperfections in their models that can explain the effects on income distribution and the level of economic activity; see e.g., Shapiro/Stiglitz (1984), Lindbeck/Snower (1988), Ciminelli/Duval/Furceri (2020), De Loecker/Eeckhout/Unger (2020)

production of material life conditions the general process of social, political and intellectual life. It is not the consciousness of men that determines their existence, but their social existence that determines their consciousness. At some stage of development, the material productive forces of society come into conflict with the existing relations of production or – this merely expresses the same thing in legal terms – with the property relations within the framework of which they have operated hitherto. From forms of development of the productive forces these relations turn into their fetters (legcuffs). Then begins an era of social revolution. The changes in the economic foundation lead sooner or later to the transformation of the whole immense superstructure (Marx 1859/1977, 1).

By aligning with Kolaja's perspective (Kolaja 1968), we can understand the distinction between "antagonistic conflict" and "non-antagonistic conflict" in economic terms using game-theoretic analysis. "Antagonistic conflict" can be interpreted as a non-cooperative "zero-sum game," where one party's gain is directly offset by the other party's loss. On the other hand, "non-antagonistic conflict" refers to a cooperative situation characterized by a "positive-sum game," where the total benefits can be increased through mutual cooperation.

This ontological interpretation diverges from the assumptions of neoclassical (mainstream) economics and even Keynes' economics, which typically view capital-labor relations, encompassing wage-setting systems and work organization, as cooperative and positive-sum games[11]. In this context, the focus is on understanding the dynamics of cooperation and collaboration between different economic agents, rather than framing their interactions as zero-sum conflicts.

Regardless of the accuracy or validity of the ontology of capitalism as a power-related, antagonistic social structure, it is evident that such a perspective sets itself apart from the ontology of social exchange in neoclassical (mainstream) economics, which emphasizes the optimal harmonization of individual interests (pareto-optimality). Similarly, it distinguishes itself from Keynes' ontology, which focuses on obligation-based interrelationships where collective interventions can potentially improve overall welfare.

The contrasting ontological views highlight the different underlying assumptions and perspectives within these economic frameworks. The power-related, antagonistic ontology suggests that conflicts of interest and power dynamics play a significant role in shaping economic outcomes, challenging the notion of a harmonious and mutually beneficial general equilibrium. In contrast, the neoclassical ontology emphasizes the potential for voluntary exchange to lead to optimal outcomes, while Keynes' ontology recognizes the importance of collective action and interventions to address deficiencies in the social provisioning process and market failures and to enhance social welfare.

In summary, it can be acknowledged that Palley's criticism of Keynes' economics stems from his distinct pre-analytic vision of capitalism. While he was mistaken in asserting that Keynes denied social conflict and in suggesting a paradigmatic amalgamation of Keynes' and

[11] A positive-sum game setting rests on technical learning and specialisation effects on the one hand and social stakeholder effects on the other hand.

neoclassical economics, he rightly highlighted the divergent significance of social conflict within the different paradigms. Palley's critique underscores the importance of recognizing and examining the role of social conflict in economic analysis, albeit within the context of his own paradigmatic framework.

2.3 Should Keynes' economics better integrate social conflict to become an alternative paradigm to guide capitalism?

Palley credits Keynes for resurrecting the concept of effective demand and recognizing its significance in economic activity, rescuing it from 'the underworlds of Karl Marx, Silvio Gesell or Major Douglas' (Keynes 1936, 32; see also TP, 29). However, Palley contends that it is now his mission to safeguard the concept of social conflict and power from being marginalized. As Keynes blamed Ricardo for conquering 'England as completely as the Holy Inquisition conquered Spain' (Keynes 1936, 32), Palley blames Keynes for neglecting social conflict in the analysis of effective demand, thereby safeguarding the "liberal project". Despite Keynes' aspirations for a scientific revolution and a paradigm shift from the dominant exchange paradigm to a monetary production paradigm, this transformation never fully materialized. Instead, Keynes' analysis of effective demand was assimilated back into neoclassical (mainstream) economics through models like the AS-AD model. This outcome was inevitable as long as the incommensurability between the two paradigms was not acknowledged or understood (see e.g., Pernecky/Wojick 2019). Unless the market-based ontology is replaced, effective demand cannot assume the central role envisioned by Keynes.

The significance of social conflict in Keynes' economics is subject to the same incommensurability: The Marxian-Kaleckian social conflict paradigm and Keynes' nominal obligation or monetary production paradigm are based on different pre-analytical visions. In Keynes' economics, social conflict is considered a secondary factor, a "surface cause," while in the Marxian-Kaleckian approach, it takes precedence and challenges the ontological foundation of both Keynes' and neoclassical (mainstream) economics. Palley's intention appears to be to replace the existing ontological base with one that prioritizes social conflict.

Keynes' and the Marxian-Kaleckian paradigms are considered incommensurable due to the different approaches they take in addressing the determination of relative prices and functional income distribution. According to Piero Sraffa's work on the *Production of Commodities by Means of Commodities* (Sraffa 1960), it is recognized that the system of relative prices can only be determined when functional income distribution is specified. In other words, the determination of either the real wage rate or the real profit rate is necessary to establish ("close") the distributional and price system (see e.g., Schefold 1976, 203). This implies that once one remuneration rate is determined, the other will follow as a residual.

This distinction in the treatment of income distribution and its relationship to relative prices sets Keynes' and the Marxian-Kaleckian paradigms apart and contributes to their incommensurability. In the Marxian-Kaleckian paradigm, the determination of the real wage rate is based on antagonistic conflict (class struggle), with the rate of profit being the residual. On the other hand, in Keynes' monetary production economy, the real interest rate, influenced by liquidity preference considerations of wealth owners (see e.g., Bibow 2005), along with other factors like market monopolies and risk premia, determines the rate of profit, making the wage rate the residual (see e.g. Herr 2018). Therefore, in Keynes' monetary production paradigm, non-antagonistic social conflict manifests itself in non-wage aspects of capital-labor relations, including work organization and employment relations. Additionally, social conflict, as expressed through collective bargaining systems, influences the wage structure and the nominal wage rate. Both of these effects have implications for effective demand. The wage structure plays a crucial role in determining personal income distribution, while the nominal wage rate impacts the price level, price expectations, and monetary policy responses (see e.g., Heise, 2009, p. 396). These consequences may be important, yet they are merely of secondary significance as compared to the Marxian-Kaleckian paradigm in which social conflict is given ontological status.

3. Guiding inquiry into capitalist economy – Keynes or Marx-Kalecki?

The drunkard is searching the keys under the lamp post instead of the lawn where they were lost – this was the metaphor which Palley used to present his interpretation of the sorrow state of the economic profession. Taking the lawn as “social conflict”, the lamp post as “the dominant economic paradigm” and the keys as “the laws of capitalism” and arguing that Keynes’ economics is essentially similar to neoclassical (mainstream) economics in denying social conflict and, therefore, part of the dominant economic paradigm, Palley favours an ‘escape from Keynes’ shadow’ (TP, 29). Apparently, he proposes to relocate the lamp post (paradigm shift) onto the lawn (Marxian-Kaleckian paradigm) in order to get a better chance to find the keys.

We have attempted to illustrate that Palley is accurate in emphasizing the paradigmatic differences and even incommensurabilities between Keynes' monetary production paradigm and the Marxian-Kaleckian social conflict paradigm. This suggests that any classification under the umbrella term "post-Keynesianism" is misleading[12]. However, Palley is mistaken in his assertion that this distinction aligns Keynes' economics with neoclassical (mainstream) economics, as the acceptance or rejection of social conflict is not the only fault line in terms of ontology. There are other ontological divisions that can exist. Or, to use our metaphor, the lamp post can be moved to different areas of the lawn, indicating different ontological perspectives.

Which paradigm, whether it is the neoclassical exchange paradigm, Keynes' monetary production paradigm, the Marxian-Kaleckian social conflict paradigm, or any other, should be used by the economic profession to conduct economic investigations ultimately depends on their comparative verisimilitude or, in other words, their ability to make accurate predictions. The paradigm that demonstrates higher predictive power and better aligns with empirical evidence would be considered more suitable for conducting economic analysis (see Heise 2020b).

A conciliatory conclusion could be to acknowledge that pluralism in economics requires space for the competition of different paradigms. On the other hand, a probably less conciliatory

[12] This also seems to settle the dispute between so called “broad tent” (see e.g., Lavoie 2005, Lavoie 2014: 42ff.; King 2012) and “narrow tent” strategies (see e.g., Davidson 1994, Davidson 2003/2004, Davidson 2005).

remark would highlight the lack of convincing arguments put forward by Palley as to why the Marxian-Kaleckian lamp post illuminates better than Keynes' monetary production lamp post[13].

[13] For a contrasting view see Heise (2020a).

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