

WORKING PAPER 2607

On the role of finance in post-Keynesian and Marxist macroeconomics

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March 2026



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Version 1.03

Feb 2026

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Abstract. Blecker and Setterfield's outstanding Heterodox Macroeconomics book covers, as its subtitle suggests, a lot of ground on "models of demand, distribution and growth", but issues of finance are largely absent. This is symptomatic of the state of heterodox macroeconomics, which has a developed common framework for the analysis of distribution and growth, but not for finance. The paper takes this as a starting point for some reflections on the role of finance in post-Keynesian (PK) and Marxist approaches. In PKE, financial factors play a constitutive role and determine the equilibrium values of key macroeconomic variables. Hyman Minsky's work puts finance at the heart of PK business cycle theory. Marxist macroeconomics often treats finance as subordinate to real (productive) processes or not at all. We consider three episodes of how PK-Marxist debates played out: the Woytinsky-Hilferding debate of the 1930s, the debate on heterodox explanations of business cycles and the debate on financialisation. In these, the relation between PK and Marxism was confrontational, largely non-interactive and productive, respectively. The paper concludes that heterodox macroeconomics lacks an effective framework for a productive articulation of the different views on the role of finance.

Keywords: finance, macroeconomics, post-Keynesian economics, Marxian economics

JEL codes: B5, E6, G01

Acknowledgements: the paper has benefited from comments by Robert Blecker, Jack Barrett, Bochao Ma and an anonymous referee. The usual disclaimers apply.

Introduction

Robert Blecker and Mark Setterfield (2019) have written an outstanding textbook entitled *Heterodox Macroeconomics. Models of Demand, Distribution and Growth* (Blecker and Setterfield's 2019). But while the book indeed covers the debates on the modelling of demand, distribution and growth in a detailed and exemplary fashion, it says surprisingly little about the role of finance. In doing so, it is not alone: Marglin (1984), Dutt (1990) and Foley, Michl and Tavani (2019) similarly do not feature finance prominently.¹ From a post-Keynesian (PK) perspective, however, the treatment of finance is a key distinguishing feature between mainstream and heterodox approaches. And the Global Financial Crisis has driven home the central role that financial markets play for economic performance.

This paper thus takes this omission as a starting point to reflect on the role of finance in heterodox macroeconomics, specifically in Marxist and PK approaches.² This involves questions like: how important are financial variables for macroeconomic outcomes? Do they feature in the equilibrium solution for, say, output and growth? Do financial factors play a key role in explaining business cycles? Do they have a distinct impact on income distribution? One of the strengths of Blecker and Setterfield (2019) is that it follows a different-closures approach where different theories or authors are presented as modifications of a (general) baseline model. This works well for theories of demand distribution and growth, where decades of debates have allowed for a unifying framework. But regarding the macroeconomics of finance, heterodox economics is a long way from such a framework. This paper can only make preparatory groundwork.

The first part of the paper will discuss the role of money and finance in PK theories. Keynes offers a theory of money that is intimately tied to the notion of fundamental uncertainty and one that gives rise to a theory of financial instability and economic crises. The Keynesian approach to finance was only elaborated in later decades by post-Keynesians, who frequently use the term monetary production economy to describe contemporary economies. Stock-flow consistent models track financial and real stocks in the economy and typically have flow/stock ratios as a part of their equilibrium solutions, and many of these ratios have a financial component (e.g. income/debt). Hyman Minsky's work put financial dynamics at the heart of the explanation of business cycles. Chartalism emphasised that money based on state authority, and the PK theory of currency hierarchy highlights core-periphery asymmetries in capital flows.

This is in contrast to the subdued role of finance in much of Marxian economics. The Marxist approach spans several academic disciplines, but this paper has a macroeconomic focus. Marx himself seems torn on how independent the role of finance in capitalism is. In Volume 1 of *Capital*, he derives money from commodity exchange (i.e. posits a commodity theory of money) and puts the production of surplus value at the core of the accumulation process. In Volumes 2 and 3, there is a more active role for finance, both in the discussion of circuits of capital and in the discussion of credit crises. And this tension remains in much of Marxist macroeconomics.

¹ Lavoie (2014) and Hein (2023) offer textbooks that feature finance more prominently, but they are less systematic in comparing different heterodox approaches. Taylor (2004) does feature finance, but in an eclectic fashion.

² Robert Blecker has several contributions on financial issues, namely in the context of the 2008 financial crisis and its policy responses, in critiques of the Washington Consensus and capital-account liberalization, and, most prominently, in his work on the determinants of the real exchange rate (e.g. Blecker 1999, 2005, 2016).

While large parts downplay the role of finance, there have been some attempts to put finance in a more prominent place.

The paper will look at three instances of PK-Marxist conversations where finance features in very different ways. The first stop is Woytinsky-Hilferding in the early 1930s on the economic policy response to the beginning Great Depression. Woytinsky was a proto-Keynesian who drafted a deficit-financed public employment program on behalf of the German trade unions. Hilferding, one of the leading thinkers on Marxist economics whose *Finanzkapital* was strictly rooted in the labour theory of value, rejected this and was key for the social democratic party not adopting the program. Second, we revisit PK and Marxist debates on business cycle theory. While Minskyans put forward a theory of the business cycles based on financial dynamics, the most prominent Marxist business cycle model, the Goodwin model, and the ensuing literature put class struggle at the centre and do not consider a potential role for finance. The result is two almost totally disconnected literatures on heterodox macroeconomics of business cycles. Finally, in contrast to that, in the financialisation debate, which has a prominent role for finance as its starting point, Marxist and PK contributions are rather promiscuously borrowing from each other. While there are discernible differences, there is no hard dividing line.

This is a short paper on some big topics, some qualifications and clarifications as to the ambition of the paper are thus in place. First, the focus of this paper is on finance (e.g. debt, asset prices, etc.) rather than money (e.g. inflation). Second, a paper of this length cannot be exhaustive as a literature survey. The materials discussed and references given are thus indicative rather than comprehensive. Brevity comes with a cost in terms of detail and elaboration, but the hope is that the broad-brush picture helps identify important features of and cleavages in the debate. Second, the paper comments on ongoing debates in which the author has himself participated, and my perspective is Kaleckian-Minskyan. However, the paper is not meant as a partisan intervention, but as a survey of a wide field of debates in order to provide groundwork for developing a common frame of reference for debates in heterodox macroeconomics on finance. While Bhaduri and Marglin (1990) provided a framework for the Marxist-post-Keynesian debate on distribution and growth, no comparative frame exists for the different roles of finance in heterodox macroeconomics in general and business cycle theory in particular.

The essay is structured as follows. Section 2 discusses the role of finance in PK macroeconomics. Section 3 does the same for Marxist macro. Section 4 discusses the Woytinsky-Hilferding controversy of the 1930s. Section 5 discusses business cycle explanations and the debate on financialisation as contemporary debates where PK and Marxist approaches reappear and interact in very different ways. Finally, section 6 concludes.

Finance in post-Keynesian macroeconomics

The central role of finance in PK macroeconomics is well established. It is expressed in the frequent use of the notion of a 'monetary theory of production economy' (originating from Keynes 1933) by PKs. This is in contrast to the barter economies often employed as reference point in neoclassical analyses to which a monetary sphere is added in the form of nominal prices. This results in the classical dichotomy of the real and financial sides of the economy, where money and financial variables are ultimately independent. In contrast, in PK monetary

production economies, financial variables matter for real outcomes (both in the long and the short run) and finance is a constitutive part of the economy, which can develop a life of its own. This section shows how PKs have taken this core notion in different directions.

In Keynes and most of PKE, macroeconomics takes place in a world of uncertainty where holding money is an insurance against uncertainty. Thus, in times of crises, there is a rush to liquidity (Keynes referred to this as an increase in liquidity preference) where financial investors rebalance their portfolio from risky, high-return assets to safe (low-return) ones with money and government bonds. This portfolio rebalancing happens abruptly during times of financial crises and comes with a sell-off of risky assets. This leads to two second-round effects: first, money markets tighten. In Keynes, the main effect of that is a sharp increase in the interest rate. In practice, say during the onset of the Global Financial Crisis in the summer/autumn of 2008, key financial markets (interbank market, market for corporate bonds) freeze (i.e. transactions drop). This means that various financial units do not have access to short-term liquidity and need to sell further assets in declining markets, or they have to default. Second, as asset prices drop, various financial institutions will face balance sheet problems (i.e. become insolvent).

Substantial parts of PK macroeconomics engage in comparative static exercises of medium-term time horizon (Palley 1996, Hein 2014, Lavoie 2014). In these models, interest rates are the key financial variable. In the short run, the base rate is set by central banks and private bank charge interest rates (e.g. on loans) with a mark up (based on their liquidity preference) on the base rate. Interest rates play a dual role in that they impact economic activity, but they are also a distributional variable that reflects the power of the finance (typically mediated by the central bank, which is most explicitly discussed by Epstein 1994). Financial assets and liabilities feature prominently in stock flow-consistent models (Lavoie and Godley 2012). Via wealth effects, financial assets impact consumption expenditures. In these models, some financial-real ratios (e.g. the wealth-to-income or debt-to-income ratio) play a constitutive role for the (medium-term) macroeconomic equilibrium (we will return to financialisation and shareholder value orientation below, in section 5). There are substantial parts of PK macro, where finance plays a subdued role, namely Kaleckian models of growth and distribution and balance of payment constraint growth models, which are extensively discussed in Blecker and Setterfield (2019), but they are balanced by a sizeable literature that features finance prominently. But these are organically linked, as much of the financial macro models build on a Kaleckian goods market.

Financial cycles take centre stage in the work of Hyman Minsky (1982, 1986), and since the 1980s, there has been an expanding literature on financial cycles. Different from the larger part of PK macro, this literature explicitly aims at developing models that generate endogenous cycles (Asada 2001, Fazzari et al 2008, Dafermos 2018). Nikolaidi and Stockhammer (2017) identify two grand families of Minsky models based on the core mechanisms. First, and closer to Minsky's own writings, are models where financial cycles arise out of the interaction of investment expenditures, which in part need to be financed externally, and (corporate) debt. Debt will rise during the boom; in other words, financial fragility (e.g. the debt-to-income ratio) will rise during the upswing. Debt (or, in some models, debt service) negatively impacts investment. Out of the interaction of the positive effect of investment on debt and the negative effect of debt on investment, endogenous cycles can arise. These are models that aim to explain the business cycle, i.e. movements in GDP. The second stream in the financial cycle literature is that on speculative asset prices. Here, the cycles emerge from the interaction of two different types of investor behaviours, based on two different forecast heuristics.

Fundamentalists regard asset prices as anchored in some fundamental value (e.g. profitability of non-financial business) and expect prices to move towards that fundamental value. Momentum traders use extrapolative expectations and forecast future price movements based on past price trends. One important implication of these two expectation rules is that in case of an unexpected price increase, fundamentalists will decrease their demand (expecting a price decline) whereas momentum traders will increase their demand (expecting further increases). There are elements of this analysis in Minsky, and some Minskyan models (e.g. Ryoo 2016, Gusella and Stockhammer 2021) use these mechanisms, but it is fair to say that these models are more developed in mainstream behavioural finance and behavioural economics (Beja and Goldmann 1980, de Grauwe and Macchiarelli 2015). Different from the first family, these are models of financial markets that aim to explain asset prices (such as share prices and house prices), and they only have a supporting (but not constitutive) role for debt.

Most PK macroeconomic analyses focus on contemporary economies, but there is a smaller historical literature on the origin of money, where PKs often endorse versions of the origin of money from state authority and debt relations. This took a strong form in Modern Monetary Theory's resurrection of chartalism (Wray 2004, Bell 2001). Most PKs would endorse a softer version where money and finance are co-produced by the (private) banking sector and the central bank (i.e. the state), with government debt playing a crucial role as the safe asset in the hierarchy of financial assets of different risk and returns (e.g. Ingham 2004). While money is created by private banks as a side effect of lending decision, they are only in a position to do so because of guarantees by the state (in the form of access to emergency liquidity, deposit insurance schemes and, less formalised, bail outs during financial crises of systemically relevant institutions (more commonly known as 'too big to fail'). In other words, the financial system relies in critical moments on the state, but its actual working is mostly run by private institutions.

The PK theory of the currency hierarchy is an application to the sphere of international finance with a particular focus on currencies in the global periphery. While the basic hierarchy of financial assets based on different degrees of risk and liquidity refers to financial assets within a country, a similar argument holds for currencies in the international financial markets. Assets in different currencies are associated with different degrees of safety, and a currency hierarchy emerges where (assets in) currencies at the top of the hierarchy are regarded as safe and have a liquidity premium; currencies at the bottom will have to provide higher rates of return. Thus, there will be internationally grounded risk differentials (and difficulties of issuing debt in the domestic currency in the periphery). Moreover, in times of financial crises, the flight to safety will lead to capital flows from the periphery to the core (even if the crisis originated in the core). This creates a structural asymmetry in state capacity in the core and the periphery: the capital inflows during the crisis simply lead to countercyclical state borrowing and spending in the core, but capital outflows make Keynesian policies difficult in the periphery (de Paula, Prates and Fritz 2017).

As this brief overview makes clear, finance has a central role in PK macroeconomics. Financial factors are key to understanding economic developments and co-determine real outcomes both in the short and longer term. Financial factors are key for the smooth running of the economy, but they also are determinant of the macroeconomic equilibrium and a major explanatory factor for economic crises with the Minskyan stream in PKE elaborating a theory of endogenous financial cycles that often drive the business cycle. There are differences within the PK approach. While all PKs would endorse a central role for finance, there is a spectrum of

views on, e.g. the relative importance of the central bank and that of private financial institutions. Not all PKs endorse the Minskyan approach to financial cycles (e.g. Lavoie and Seccareccia 2001), but all of them share a concern for financial instability.

Finance in Marxist macroeconomics

This essay is interested in the role of finance in Marxist macroeconomics. Narrowing this down is tricky as there is no well-defined field of Marxist macroeconomics. We will have to start with some of the foundations of Marxist economic theory and its use of money, and will return then to the macroeconomic issues.

There is an ambiguity about the significance of finance in Marx himself. While volume 1 of capital advocates a commodity theory of money and subordinates finance to a symptom of real activity (except for the section on $M - C - M'$ (money-capital-money')), volume 2 with the circuits of capital and volume 3 with the concept of a 'realisation crisis' allows for a more independent role of finance (but volumes 2 and 3 were never published during Marx' life time and arguably his views on finance are unreconciled with the strictly production-based theory of volume 1).

A distinct feature of Marx's economics is the labour theory of value, and for parts of Marxist theory, this becomes a foundation. It is thus worth briefly reviewing its implications for the theory of money, as it will foreshadow the difficulties of Marxists in giving an active role to finance. At the core of the labour theory of value is the assertion that only human labour creates value and that value is preserved in circulation (i.e. exchange). While money plays a prominent role in Marxist economic theory, it is ultimately subordinate to real production. Money, in the early chapters of Capital vol 1 (Marx 1976), is derived from the exchange of commodities. Some produced commodity (most importantly: gold) becomes accepted, for convenience, as general equivalent and thus functions as money. It can then be supplemented by paper notes (fiat money), but that is not the foundation of money. The fact that money is itself a produced commodity is important for Marxist theory, because if money were not a produced commodity, the exchange of equivalents (and thus the preservation of value) would be routinely violated. Money is important not only for enabling exchange, but also to allow investment. Marx's famous circuit of capital as $M-C-M'$ illustrates the significance of this: for the capitalist accumulation process to start, there must be an injection of money (Marx 1978). Short, Marx has an independent role for money (and credit), but ultimately it is subordinated to the production of surplus value and capitalist profits and (real) investment. Marx (1981) and Hilferding (1968) do analyse the role of credit in the business cycle, which can play an amplifying role in the cycle, but again, the real action is in the production of surplus value. As Marx put it (in volume 1): "The superficiality of Political Economy shows itself in the fact that it looks upon the expansion and contraction of credit, which is a mere symptom of the periodic changes of the industrial cycle, as their cause" (Marx 1976, p. 786). This, of course, is in outright contradiction to Minsky's model, where credit is constitutive for the cycle.

Finance then does not feature much in Marxist macroeconomics or Marxist economics textbooks. Foley and Michl (1999), as their title suggests, do not cover finance. Shaikh (2016) has two chapters (5 and 10) on finance, which illustrate the subordination of finance to surplus value production. The most developed part of the Marxist business cycle theory is the Goodwin cycle (which also features extensively in Blecker and Setterfield 2019). In these models, the capital labour conflict takes centre stage (without the use of the labour theory of value). Economic growth is profit-led, and growth leads to depletion of the industrial reserve army (i.e.

declining unemployment), which then squeezes profits. Thus, cycles arise from the interaction of the profit-driven growth and an industrial reserve army distribution effect. There are numerous extensions of this model, in particular incorporating wage-led technological change (Tavani and Zamparelli 2015), but until very recently, matters of finance do not feature in this literature. Similarly, the widely used trinity of Marxist crisis theory (rising organic composition, profit squeeze and realisation crises) does not include finance as constituent factor.

There are probably two main exceptions to my assessment: Crotty (1985) and Graziani (1997). The former in particular tries to create a Marx-Minsky synthesis. A Crotty demonstrates, this might have been a (theoretically) feasible avenue, but this was a road not taken by Marxist economics. Crotty is nowadays mostly known as post-Keynesian (which does not quite match his own perception). Graziani's analysis is similarly located between Marxist and post-Keynesian ideas. Again, he is nowadays better known as one of the founders of the monetary circuit theory, which is usually considered PK, but less known among Marxists (only a handful, like Bellofiore (2005), build on him).³

In short, already Marx himself was somewhat torn on the significance of finance. While volume 1 of capital advocates a commodity theory of money and subordinates finance to a symptom of real activity, volumes 2 and 3 allow for a more independent role of finance. This tension is also visible in later Marxist economics. For the most part, real factors (production, class struggle and exploitation) take centre stage. Again, there is a spectrum: strict interpretations of the labour theory of value (with commodity money) limit and autonomous role for finance (see Hilferding in the following section); many class-struggle oriented Marxist economists, even if they do not explicitly build on the labour theory of value, prioritise production and practically downplay the role of finance (beyond being an amplifying factor). Thus, finance mostly plays a subordinate, if any, role. Only a handful of authors (in particular Crotty and Graziani) tried to introduce finance via the circuits of capital, which gets very close to PKE.

The Woytinsky-Hilferding controversy of the 1930s⁴

Before we turn to contemporary academic debates, we will consider a historic episode where Keynesian and Marxist interpretations of a crisis (the Great Depression) led to starkly diverging economic policy conclusions. In the early 1930s, at the onset of the Great Depression, there was a controversy on economic policy within the (nominally still Marxist) German Social Democratic Party, with the (Marxist) Rudolf Hilferding and the (proto-Keynesian) Vladimir Woytinsky as main protagonists. In 1931, Germany experienced a sharp economic contraction with a rapid rise of unemployment and the bankruptcy of Damat Bank, Germany's third-largest bank. The German trade union confederation proposed a deficit-financed public employment program, which is referred to as the WTB plan, after Vladimir Woytinsky, Fritz Tarnow and Fritz Baade (both SPD MPs). Woytinsky was a Jewish Russian Socialist working as the main economic advisor of the trade unions and the lead author of the program. He is now regarded as one of several proto-Keynesians who developed Keynesian strategies before the *General Theory*. Hilferding was an Austrian Marxist who became famous for his main work *Das*

³ For example, Itoh and Lapavistas (1999) has no reference to Graziani, nor does Shaikh (2016); that is in contrast to contemporary PKs like Lavoie (2014) and Hein (2014).

⁴ This section draws heavily on Stockhammer (2025).

Finanzkapital (1910) and for his reply to Böhm-Bawerk's Marx critique (Hilferding 1904). The disagreement of the two came to a head at a summit between the SPD parliamentary faction and the trade union representatives in 1931, which concluded in the SPD rejecting the proposal upon Hilferding's instigation.

The WTB plan suggested a public employment program that would be debt-financed, which would be partly acquired by the central bank. Woytinsky (1931, 1932) emphasises that a large part (45% according to his calculations) would be self-financing as expenditures of the unemployment insurance would decline and tax income increase. In his assessment of the relevant orders of magnitude of the impact, he argues that at a maximum money supply would increase by 3-5%; as there would also be positive output and employment effects (which he substantiates by reporting excess capacity and stocks in various consumption good sectors). Potential inflationary effects would thus be small. His analysis is empirically grounded and has a clear Keynesian flavour.

Hilferding was, at the time, not only a leading Marxist theoretician, but also twice Finance Minister (1923, 1928/29) and was the leading economics spokesperson of the SPD. He did not directly respond to the WTB plan in writing, but his close collaborator Fritz Naphtali did. Naphtali argues that crises are due to sectoral disproportionality problems caused by the anarchy of capitalist competition. Thus, a general reflation (that Woytinsky is advocating) is unhelpful as it does not facilitate sectoral re-alignment. Part of the reflationary effect would lead to inflation growing faster than nominal wages, thus resulting in real wage declines. He implicitly endorses sound, gold-backed money as a precondition for recovery, even if that comes with higher interest rates. He considers an internationally financed employment program for Germany helpful, but sharply argues against national credit-financed programs. Generally, he rejects that monetary factors play an independent role in the crisis and that credit creation can help resolve it. He advocated an active economic policy, but other than anti-monopoly policies, he gave no specifics on such a policy. Notably, Naphtali's concern about inflation was in sharp contrast with Germany's actual economic performance: Germany experienced a deflation of around 10% in 1931 as well as in 1932 (Hetzl 2002, Table 1). Historians (e.g. Smaldone 2000) generally assume that Naphtali's response was coordinated with Hilferding.

One interesting question is whether Hilferding's rejection of the WTB plan was merely tactical (he supported the SPD's toleration of Brüning's austerity policy, which was inconsistent with the WTB plan) or whether it was grounded in (his) Marxist analysis. Stockhammer (2025) makes a strong case for the latter. In *Finanzkapital*, Hilferding restates and extends Marx's theory of money and finance. He proposed a limited theory of endogenous money creation (via bills of exchange), but strongly endorses a commodity theory of money of the last instance. A strict commodity money would be too inflexible for capitalist dynamics; thus, trade credit and bills of exchange provide the means to expand credit as needed. However, that would only be possible at the cost of recurring financial crises where credit money and commodity money become realigned. According to Hilferding, the true nature of money gets revealed in international transactions, which rely on gold. „In reality, such a paper currency would be impossible. This paper money would be valid only within a single state; for settling international balances metal, money with a value of its own, is necessary“ (Hilferding 1968 [1910], p. 66). Thus, the gold standard is declared the experimental proof of the labour theory of value: “the impossibility of an absolute paper currency is a strict experimental proof of the objective value theory” (Hilferding 1968 [1910], p. 68). In other words, inflation is part of the problem and not the solution (even in a recession). In the 1920s, Hilferding endorsed the gold standard part and

parcel with the orthodox economic policy package. In a book review in 1928, he linked hyperinflation to public deficits and in 1932 in article in the leading social democratic newspaper on Britain's exit from gold, Hilferding (1932) endorsed the gold standard as necessary to overcome the crisis. In short, for Hilferding the endorsement of the gold standard and orthodox fiscal policy was grounded in Marxist economics.

Hilferding's rejection of the WTB at the union-party summit led to the SPD not endorsing the program, but tolerating Brüning's austerity policy, which led to deflation and deepened the crisis. This meant that none of the major democratic parties in Germany supported expansionary policy. While it is impossible to assess what difference that would have made, it is clear that mass unemployment did help pave the way for the electoral success of the fascists. The Nazi (probably in an attempt to drive a wedge between the SPD and the unions) adopted large parts of the program and went on to win the elections the following year (Harsch 1993). This episode is clearly an extreme political and economic constellation, but it illustrates how much is potentially at stake in the question of how much finance and demand matter and how much PKs and Marxists can disagree.

Divergence and convergence in PK and Marxist analyses of finance: business cycles and financialisation

The article so far has treated the PKE and Marxist economics as distinct approaches. In practice, this may be too polarising. Many (but not all) PKs have some Marxist sympathies or inspiration, in particular as regards the centrality of class conflict. Michal Kalecki, one of the founding fathers of PKE, came from Marxism and developed his analysis of effective demand in a Marx-inspired two sector framework. Crotty and Graziani were mentioned as authors who synthesise Keynesian and Marxist arguments. Thus, in ongoing debates, the relation between PKE and Marxist approaches may be confrontational as well as symbiotic. This section briefly reviews two different fields: analyses of business cycles, where the two streams have rather conflictive stances, and financialisation, where there is a lot more cross-fertilisation and symbiosis despite recognisable differences.

In the research on business cycles and analyses on the origins of crises, there is a substantial gap and tension between PK and Marxist approaches. While there are different emphases within PKE on the business cycles, financial factors feature in most of them, and there is a dynamic research field of financial cycles of Minskyan inspiration (real sector-focused approaches, such as Kaldor's (1949) trade cycle, exist, but are currently not that central). There are numerous attempts to model Minsky's arguments (Fazzari et al 2008, see Nikolaidi and Stockhammer 2017 as a survey), including some empirical studies (Kim 2016, Palley 1994, Stockhammer et al 2019). Applied analyses of the global financial crisis (e.g. Wray 2009, Caverzasi and Godin 2015) or the Euro crisis do discuss financial factors. In contrast, the main neo-Marxist model of the business cycle, the Goodwin cycle, has given rise to a substantial number of theoretical as well as empirical studies focusing on class conflict and posits that the downturn is caused by high wage growth and a profit squeeze (Goodwin 1967, Tavani and Zamparelli 2015). Financial factors do not usually feature in these studies, even when the period of empirical studies covers major financial crises (exceptions include von Arnim and Eick 2025 and Flaschel et al 2018). Thus, while the Bhaduri and Marglin (1990) paper provides a framework to organise debates

between PKs and Marxists on distribution and demand (which is covered in exemplary fashion in Blecker and Setterfield 2019), there is no comparable framework for integrating financial and real factors for explaining business cycles (see Calvert Jump and Stockhammer 2023 as an attempt). The absence of finance is also true for a substantial number of Marxist analyses of the causes of crises. Unlike the Goodwin models, these often make reference to the labour theory of value. In these studies, the trinity of profit squeeze, organic composition of capital and realisation crisis still is a powerful reference point as potential causes (Weisskopf 1979 as an early example, Basu and Vasudevan 2011 as a more recent one); however, finance only features as a side issue or amplifying factor.

The debate on financialisation is a very different case where PK and Marxist approaches have been a lot more complementary. While early Marxist contributions, in particular Sweezy (1985) explain financialisation as the response to a decline in industrial profitability and make little reference to PK, later Marxist work by Dumenil and Levy (2004), Lapavitsas (2009) or Durand (2017) actively engage with PKE research, in particular the central role of commercial banks in credit generation and Minskyan themes of financial instability. Indeed, on corporate financialisation PK and Marxist research are very close: they identify shareholder value orientation, increased dividend payments and share buybacks as factors that squeeze wages; and they also agree that this will have a negative impact on investment as the redistribution to shareholder also squeezes retained earnings and thus finance available for investment (Dumenil and Levy 2004, Stockhammer 2004, Orhangazi 2008, Davis 2017). The analyses diverge more on the financialisation of households, but it is hard to tell whether that is ultimately a difference in emphasis or a fundamental disagreement. Marxists tend to see household debt as a subordination of working class household under finance and a secondary appropriation of surplus value (Lapavitsas 2009), whereas PK often emphasise the potential growth effects of household debt (and rising housing wealth) and the possibility of a debt-led growth model (e.g. Hein 2012, Stockhammer and Wildauer 2016, Stockhammer 2025).

It is an interesting question, how this PK-Marxist convergence on financialisation has taken place. Two observations may help to explain it. First, the debate sits between economics and political economy and on the Marxist side, it usually does not involve macroeconomic modelling. This focus on power relations rather than the precise macroeconomic impact may help avoid conflictive terrain. Second, most of the Marxists involved in the financialisation debate already accept a key role of finance for understanding transformations in contemporary capitalism. Essentially operate on PK terrain in terms of their economic analysis: they have moved away from the commodity theory of money and accept endogenous money creation as well as the importance of financial liabilities as impacting economic performance.

The debates on heterodox business cycle research and on the macroeconomics of financialisation both deserve much more extensive surveys, but the main point for this paper is hopefully uncontroversial: the two debates differ in how the PK and Marxist approaches interact. The Minsky vs Goodwin cycles, despite a handful of papers that try to explore crossovers, are largely separate debates, whereas the financialisation debate is an example where a productive cross-fertilisation between PK and Marxist approaches has taken place. Once commodity money is removed and the empirical relevance of financial factors is acknowledged, PK and Marxist class analyses do not diverge fundamentally.

Conclusion

The starting point of this paper was the tension between the title and subtitle of Robert Blecker and Mark Setterfield's book *Heterodox Macroeconomics. Models on Demand, Distribution and Growth*. The title is broader than the subtitle. From a PK perspective, the central role of finance is one of the distinguishing features of heterodox approaches that set them apart from the mainstream. The marginal of finance in Blecker and Setterfield (2019), however, is symptomatic of much of heterodox macroeconomics (as reflected in major textbooks). To investigate this empty space left, this paper gives a survey of finance in PK and Marxist approaches. This is a difficult endeavour. While for heterodox approaches on distribution and growth, Bhaduri and Marglin (1990) provided an analytical framework that allows for the articulation of different (namely, PK and Marxist) perspectives, no such synthetic framework that could serve a similar function for the role of finance exists.

Although an independent and constitutive role of financial factors in macroeconomic analysis for PKE is straightforward, the issue is very different for Marxian economics. PKs routinely use the term monetary production economy to express centrality. Financial factors play a key role in determining the macroeconomic equilibrium in most PK macro models. Minskyan approaches put financial dynamics at the core of business cycle analysis. The theory of currency hierarchy offers a PK analysis of international finance and its impact on the economic policy capacity of developing and emerging economies. In contrast, finance features more unevenly and at times not at all in Marxist macroeconomics. This tension can already be found in the three volumes of *Capital*, where the labour theory of value suggests a subordinate role for money, whereas the circuit of capital accumulation allows for a more active role of finance. This tension then lives on with finance barely mentioned in several Marxist economics books, but also various attempts to integrate finance more fully (Crotty, Graziani), which, however have remained at the fringes of Marxist economics.

Three very different debates between the PK and Marxists approaches (broadly defined) have been revisited. In the Woytinsky-Hilferding debate, there was a sharp disagreement with momentous political implications for the (non)response in economic policy of Europe's leading social democratic party to the Great Depression. PK and neo-Marxist approaches talk past each other in debates on the role of finance in the business cycles. While Minskyan PKs put finance squarely at the centre of the cycle, most neo-Goodwinian (neo-Marxist) approaches bypass the role of finance entirely. A very different picture emerges from the debates on financialisation, where PK and Marxist contributions interact relatively productively. While there are differences in emphasis and focus, there is no fundamental dividing line between PKE and Marxism.

This overview makes clear that there are substantive differences between different heterodox macroeconomic approaches, but unlike debates on distribution and growth, there is little common ground on which this debate can be conducted. This is a problem for heterodox economics. Heterodox economics is a diverse field with a variety of approaches (these become a lot more numerous once we move beyond macroeconomics). There is a tendency for the different heterodox niches to diverge and form silos. Given the dominant institutional position of mainstream economics, this fragmentation further weakens heterodox economics. Kapeller and Dobusch (2012) document this fragmentation using bibliometric data and show that the heterodox scholars tend to cite works from their own (heterodox) tradition and (critically) from the mainstream, but there are few cross citations across the different heterodox streams. That clearly stands in the way of developing a critical mass necessary to challenge the mainstream.

As the contrast of different debates between PK and Marxist approaches illustrates, these debates have taken different forms and can lead to confrontation as well as to interaction. Heterodox macroeconomics needs to find ways to articulate different views on finance productively.

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