The causes of endogenous crises: Heterodox explanations and empirical analysis

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INTRODUCTION

- Endogenous crises literature explains the explosive oscillations of the cycle by economy's own mechanisms.
- Contrary to nowadays mainstream, exogenous shocks are not used to characterize crises.
- Empirical focus on the relationship between profits and investment as theorised by Marx and Kalecki.

REVISION OF LITERATURE

Underconsumptionist school Malthus and Sismondi	General gluts created by lack of consumption. Major flaws within the theory. Their crises theory surges as a negation of Say's law. Marx and Keynes' predecessors.
Profit squeeze Itoh and Boddy & Crotty	The cycle is explained by movements in wages. Due to their upward movement crises appear. This is created either by scarcity of labour supply or class struggle.
(Post)Keynesianism Keynes and Kalecki	Investment drives the cycle. The principle of effective demand is central to the school's theoretical framework. Expectations play a big role.
The falling rate of profit Karl Marx	The downward trend in the rate of profit created by the process of capital accumulation triggers crises. Crises are a necessary phenomena to restart the cycle.

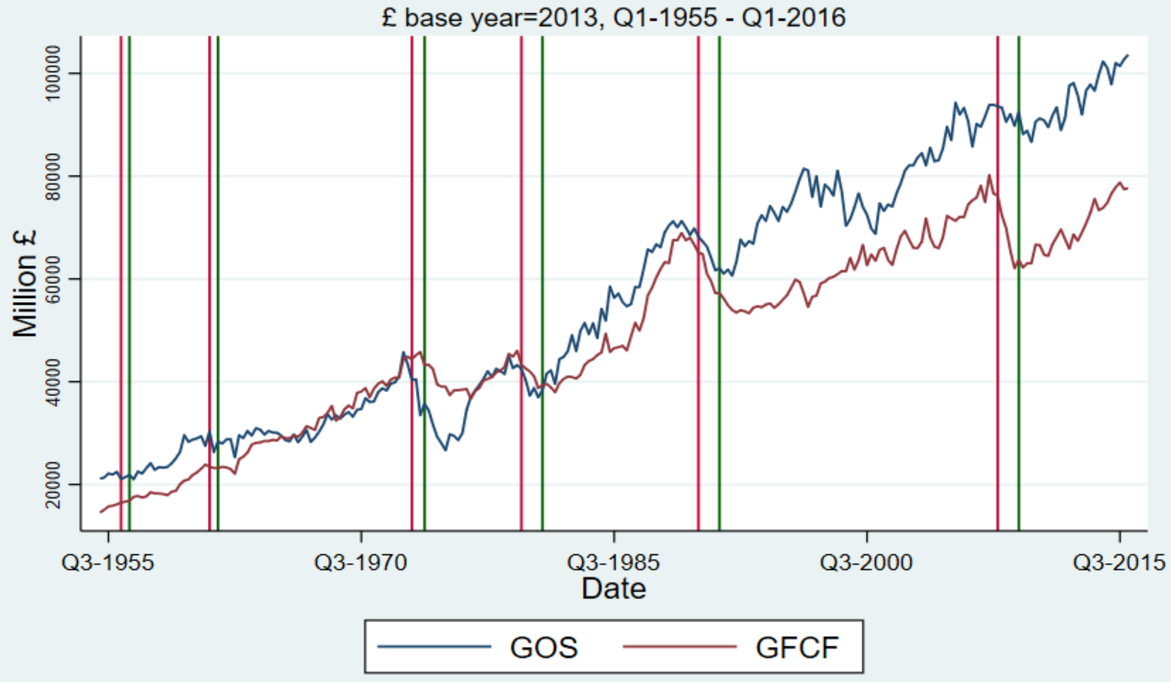
METHODOLOGY

- Use of Tapia's method (2013, 2015, 2017). Distributed lag model.
- $\Delta Y_t = \alpha + \sum_{k=0}^{r} \beta_k \Delta X_{t-k} + \varepsilon_t$
- Investment and profits are both used as dependent and explanatory variables. The lagged effects of the explanatory variable on the dependent one are analyzed within this model.
- Data extracted from the UK Office of National Statistics (ONS).

RESULTS

- The model best fit by the AIC criterion incorporates one lag.
- There is a statistically positive relationship between past profits and investment.
- Lagged investment as an independent variable is not statistically significant.
- Low R^2. Lack of explanatory capacity by independent variables.
- Differing results from Tapia's research using the US as case study.
- Robustness checks validate these results.

Figure 1: Gross Operating Surplus (GOS) and Gross Fixed Capital Formation (GFCF)
£ base year=2013, Q1-1955 - Q1-2016



Source: Own elaboration from Office of National Statistics (ONS)
Red line= Beginning of recession; Green line= End of recession

Table 1: Gross fixed capital formation regressed on corporate profits

Lag	A	B	C	D	E	F	G
0	0.141***	**0.175*** **	0.173***	0.164***	0.166***	0.164***	0.161***
1		**0.124*** **	0.121***	0.111**	0.104**	0.105**	0.101**
2			-0,011	0.010	0.001	-0.005	-0.003
3				0.084*	0.100***	0.090**	0.083*
4					0.062	0.080*	0.070
5						0.073*	0.093**
6							0.080*
R^2	0.0402	0.068	0.0633	0.0741	0.078	0.0863	0.0957
AIC	-1007	-1009	-989	-999	-944	-990	-987

*** P < 0.01, ** P < 0,05, * P < 0.1

Source: Own elaboration from Office of National Statistics (ONS)

CONCLUDING REMARKS

- Movement of variables during the cycle according to Marx and Kalecki have similitudes. Investment (accumulation) has a contradictory effect on the rate of profit.
- Results do not concord with either the Kaleckian or Marxian theories.
- Tapia's model does not have external validity when applied to the United Kingdom.

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