

Referee Report:

Marcel R. de la Fontejne, “An Inconsistency in using Stock Flow Consistency in Modelling the Monetary Profit Paradox”

Summary:

The objective of the paper is to show the impossibility of the positivity of aggregate monetary profit in a hypothetical Wicksellian pure credit economy, which poses a question on the pertinence of a modelling approach of Keen (2010) who proposes a solution to the monetary profit paradox. The paper is comprised of three sections. The first section provides a brief description of the paradox and the aim of the paper. Using the model and numerical examples in Keen (2010), the second section presents the main result of the paper: contrary to the Keen’s reasoning that the aggregate monetary profit is positive, the “Stock Flow Consistent” system does not support the existence of the positive aggregate profit. From a perspective based on this result, the last section summarizes some inadequate aspects of the modelling approach underlying the solution to the monetary profit paradox in Keen (2010).

Remarks:

The author of this report verified the results of the main analysis by examining the solution procedure and numerical examples in the paper.* In general, the analysis of this paper is correct. In particular, the examination of the main analysis lends support to the view that, from one of the main assumptions of the original model (i.e. only workers and banking sector consume), it is natural to impose the equilibrium condition for the (consumption) good market ($Y = \omega W_D + \beta B_I$) in a modified model introducing the coefficient reflecting the worker’s share in national income per turnover period ($w = (1 - s)/\tau_s$). This equilibrium condition brings about a counterexample to the Keen’s solution, which is the key point of the paper.

Given the validity of the result, the paper possesses potential for a significant contribution to the literature of the monetary profit paradox since the result in the paper would stimulate the research projects to identify (i) the condition(s) for the absence (or presence) of the positive aggregate profit in a pure credit economy case and (ii) the proper use of the “Stock Flow Consistency Principle.”

While the key issue is clear, for this paper to further facilitate the potential reader’s understanding, this report suggests the following: (i) removing the misprints in text and equations (particularly, those on pp.3-4), (ii) specifying the economic rationale for imposing the condition that “ $E + F$ is equal to Y ,” and (iii) providing a description on the ambiguity associated with the role of firm sector (i.e. capitalists) in the original Keen model from the viewpoint of the aggregate demand.

Reference:

Keen, S. (2010): “Solving the paradox of monetary profits,” *Economics Discussion Papers*, No. 2010-2, <http://hdl.handle.net/10419/29536>

*Computations were performed by Wolfram Mathematica Version 9.