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Reconciling Schumpeter and Georgescu-Roegen
- Entropy in a Schumpeterian Model of Growth -

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**JEL:** B2, B3, Q5

**Keywords:** Endogeneous Growth, Entropy, Schumpeter, Georgescu-Roegen, Evolutionary Economics

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Abstract

In this paper we try to incorporate Georgescu-Roegen’s concept of bioeconomics into a Schumpetarian endogenous growth model. Georgescu-Roegen believes that the production process irrevocably degrades the terrestrial low-entropy resources (energy and matter). Its mode of operation translates as a deficit in entropic terms [Georgescu-Roegen, 1971, P. 279]. Economic activity therefore is by nature basically entropic. One of the fundamental conclusions that derive from the entropic nature of production is the rejection of growth on the basis that it does not comply with physical constraints (Miernyk, 1999). Taking up on this concept, the objective of our paper is to analyse whether the degradation of energy and matter ultimately must cease any growth process in the long run, or, whether it might be mitigated through Schumpetarian innovations in the direction of enhanced resource efficiency.

In his major work Georgescu-Roegen has provided a concept for introducing the entropy law into economic analysis as well as for uncovering the irreversible nature of the transformation of energy and matter (1971). In simplified terms, the process of production draws on high quality mineral and energy resources – with low entropy – and transforms them into products. But this movement occurs simultaneously with the disposal of valueless – high-entropy – wastes into the environment.

More specifically, two categories of elements contribute to production: funds and flows. These two concepts are fundamental. The role of funds is to transform flows that pass through the process. This category is made up of elements such as capital, land and labour. Such elements have a dual quality: they offer services that are limited in time and they are both inputs and outputs (expressed in physical units). Alongside these funds, flows enter and exit the process of production. These are elements whose quality can vary over time and which cannot be both inputs and outputs. Implicit in this approach is the complementarity between funds and flows.

Further, the concept of "irreversibility" is fundamental to the analysis of any economic process because it implies considering the qualitative change of elements that contribute to production. The act of production is therefore inherently dialectical. Thus, the qualitative change of any production process at one time can be measured by the entropy variable, which, from a physical perspective, can be assessed by the waste flow rejected into the environment.

To capture these ideas in a formal way, we use an endogenous growth model in which we incorporate the circulation of matter under the material balance constraint including a recycling option. Moreover, we assume that the transformation of natural resources must obey the entropy law in Georgescu-Roegen’s sense. In particular, we consider an economy which is producing a general purpose good from capital, nonrenewable natural resources, and recycled intermediates. The material content of final production ends up as degraded wastes which subsequently may be recycled or simply dumped into the environment. Dumping of course is harmful to the environment. Recycled wastes then may be reused in production as secondary
material to substitute for natural resources just like renewable resources may substitute for nonrenewable ones. Material balance gets respected such that generated wastes must reflect that amount of natural resources which previously had been extracted from the environment. As well, the entropy law is met in the sense that degraded matter cannot be directly reused in production without undergoing a recycling process for which additional inputs like energy and natural resources are necessary.

The remaining part of the model primarily draws from the Schumpetarian Approach to Endogenous Growth which basically goes back to Aghion-Howitt (1992, 2009). What lies at the heart of the “Schumpeterian” conception of evolution is the notion of discontinuity and its materialization in the economy in the form of new combinations. Technical progress is eminently revolutionary. The emergence of new combinations at the instigation of the entrepreneur is crucial. These innovations, when applied to the sphere of production, drive economic evolution. In the Aghion-Howitt approach Schumpeter’s idea of creative destruction is (maybe insufficiently) reflected in the obsolescence of old designs which by a conditioned random walk are replaced by new ones. In our model technical progress specifically takes the form of “green” innovations.

As a main result, we find support of Georgescu-Roegen’s hypothesis that growth cannot be sustained in the long run, if natural resources are considered essential to production and the dematerialization of production is not a preferred option. The reason simply is that recycling under the entropy law cannot overcome the finiteness of natural resource stocks which equally are the ultimate source of the recycling option. However, it can be shown that recycling of matter under material balance and physical constraints may nevertheless enhance the evolution of the economy by increasing the growth rates of production and consumption over time compared to a frame in which the recycling option is not available.

**Literature**


“The Past and Future of the Social Sciences”: A Schumpeterian theory of scientific development?

Stefano Lucarelli*, Hervé Baron*

The present paper, taking advantage of the Italian translation of Vergangenheit und Zukunft der Sozialwissenschaften (The Past and Future of the Social Sciences), a Schumpeter’s book which was not always well understood in the literature, tries to set some methodological questions about Schumpeter’s work. In particular: is Vergangenheit only «a brief outline of what first became the Epochen der Dogmen und Methodengeschichte and finally the History of Economic Analysis», as Elizabeth Boody Schumpeter wrote in the Editor’s Introduction (July 1952) to the History of Economic Analysis (p. XXXII), or should it be read as a complement of Epochen and History? Is it possible, starting from that book, reconstructing a Schumpeterian theory of scientific development? And finally: is it correct to say that Schumpeter's work had the ambitious objective to develop a 'comprehensive sociology' as the eminent Japanese scholar Shionoya did?

JEL classification: A12, B25, B31, B41.
Keywords: Schumpeter, social science, method, scientific development.

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Abstract

Neoliberalism adopts a free market policy in a deregulated political framework. The lead of economy is the final aim in a society ruled by neoliberal system. This primate has to be intended neither as a Marxian “structure” nor as a mere pursuit of getting higher profits for capitalists. This primate is meant as the regular application of the logic of economics as the sole rational way of governing a country as well as of organizing private lives.

Polanyi anticipated the prerogative of a neoliberal society as a potential, and a very likely, side effect of what he called “the great transformation” of our society. Also, he questioned which kind of freedom would be possible in a society shaped by that form of rationality, he defined “a complex society”. Polanyi’s anticipations can be found in his writings he composed in the Thirties as well as in *The Great Transformation* (1944). Polanyi realized that an increasing role of the market economy would have developed a less free society rather than a more free one, as preached by liberal thinkers (I use the term “liberal” in a European way). He also recognized that the transformation of the classical political economy into economics (i.e. economy as a science), started by Robbins has been the starting point of the present neoliberal society, in Polanyi’s words “a complex society”. In order to explain how this transformation has been possible, Polanyi adopted the concept of fictitious commodities, and he introduced what he called a self-protection of the society against the abuses of the market economy. Polanyi’s discourse on the disembedded economy in neoliberalism led him to consider neoliberalism as the most impressive aspect of the ethical weakness of the late capitalism.
Teoria del circuito monetario e politica economica in Augusto Graziani
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Abstract.

Il contributo alla teoria economica di Augusto Graziani è irriducibile alla sola teoria del circuito monetario, approccio per cui l’autore è più noto, e su cui ha speso gli ultimi decenni della sua vita. Una adeguata comprensione della teoria del circuito monetario nella versione di Graziani richiede, peraltro, di comprenderne la genesi e la costituzione in un rapporto dialettico con le altre correnti del pensiero critico. E obbliga a non separare il suo contributo strettamente teorico dall’essenziale contraltare costituito dalla interpretazione del capitalismo contemporaneo e dalla critica della politica economica. L’intervento al convegno discuterà il pensiero di Augusto Graziani muovendo dunque lungo queste tre diretrici: (i) la teoria del circuito monetario come parte del percorso intellettuale di Graziani; (ii) la visione del capitalismo contemporaneo come economia monetaria di produzione; (iii) la lettura della politica economica che ne discende.
abstract

Sraffa’s relationship to Marx remains a controversial topic. After the opening of Sraffa’s Archive in 1993, with the Sraffa Papers (SP) and the Sraffa Collection (SC), we know that the Italian economist changed his attitude on the labour theory of value (LTV). In 1927-31 he was very critical of the LTV whereas in the early 1940s Sraffa thought that his inquiry would vindicate the ‘Old Moor’. A few years later he abandoned this view of strong continuity, however even after the publication of *Production of Commodities by Means of Commodities (PCMC)* Sraffa maintained a positive judgment on Marx’s transformation procedure and even more than that interpreted the results of his book in terms of capitalist exploitation within an amended Marxian discourse.

The unpublished Sraffa Papers at the Wren Library may help to break the non-communicative monologues between Marxists and Sraffa’s followers. This is possible only if contested is the *vulgata* that, ‘after Sraffa’, the surplus approach must be dismembered from the LTV, and only if the connection between value and labour (through money) is argued differently than in both old and new interpretations of Marx. As part of this research project, in the present chapter I shall first review some of the original debates of the 1960s-1970s and then reconstruct Sraffa’s ‘making’ of *PCMC*, taking into account the (conflicting) views among Sraffian interpreters about the Marx-Sraffa relationship. Sraffa’s normalizations in § 10 and §12 of *PCMC*, may be interpreted as implying that national income is nothing but a monetary exhibition or objectification of living labour. This, together with Sraffa’s redefinition of the rate of surplus value at prices of production rather than at labour-values, allows us to build a bridge with the New Interpretation (NI) of Marx. The paper, however, stresses also some differences: between Sraffa and the NI and between the two and Marx. The paper also provides a critique of some writings proposing Sraffa as the ‘true’ Marxist, and ends with some personal considerations.

The value of the SP for having a fresh look at these, as other, questions cannot be exaggerated. Sraffa’s long journey in the making of *PCMC* was very solitary, marked by a deep internal dialogue and constant revision: a long-distance, lonely run, towards a masterful revival of not only Classical, but also Marxian critical political economy.
The sustainability of a creative-finance-led economy

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Abstract

Six great trends have characterized the evolution of mature capitalist economies in the recent decades: 1. successful efforts to lower inflation from the levels of the 1970s; 2. Real growth significantly lower as compared to early post-WW2 decades; 3. a greater frequency in financial instability episodes; 4. the so-called “financialization” of the economic system; 5. rising inequalities in income and wealth distribution; 6. the escalation of “creative” finance. Specialist contributions have offered empirical evidences and analytical arguments on each of these topics, yet a comprehensive approach is still in a preliminary phase. Without excessive ambitions, our contribution pursues this direction. After a selection of stylized facts for the great trends, we consider the principle of shareholder value as the fundamental ideological bias at work behind them. In our proposed interpretation, the reversal of the intermediation structure, associated with creative finance, may have a pivotal role in the construction of a comprehensive approach, as the diverse channels of its possible adverse effects on the real economy may subsequently account for the other stylized facts. We then point at two “limits” to the expansion of creative finance: a “Kaleckian limit” and a “Minskian limit”.

Key words: financialization, creative finance, real economy

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Whither ‘Basic Income’ in a Monetary Circuit Frame?
A Sympathetic but Critical Appraisal

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Abstract: In the last decade, proposals of adoption of either an ‘unconditional basic income’ (UBI) or a ‘conditionally-guaranteed minimum income’ for the temporarily unemployed (GMI) have been met with widespread approval and growing enthusiasm. On the one hand, conservatives support GMI as a way of replacing the variety of existing government benefits with a unique universal subsidy, thus favouring a more equal treatment of citizens qua workers. Further, the GMI echoes Friedman’s (and then Tobin’s) well-known ‘negative income tax’, i.e. a money benefit aiming to bridge the gap between the income actually perceived by a given household and a minimum legally-fixed taxable income. While this has endowed GMI with respectability amongst conservatives, it has also allowed GMI to be reinterpreted as a monetary compensation for the reduction of employment protection legislation and, as such, to win the consensus of progressives and progressive scholarship alike. On the other hand, the introduction of the UBI has become one of the main requests emerging from (a substantial part of) radical social movements and radical scholarship – think of the theorists of the ‘post-industrial’ (such as André Gorz, for example) or the so-called ‘post-workerists’. In their opinion, the UBI would constitute a ‘social wage’ pertaining to a productive factor which remains unrecognised and unpaid in contemporary capitalism, i.e. the widespread general intellect and the intellectual dimension of work under cognitive capitalism. The provision of a UBI would, thereby, restore the link between the contributions of productive factors and the shares of output these factors are entitled to. In addition, new theoretical foundations have been proposed for the UBI in recent post-workerist writing, which invokes a ‘theory of the monetary circuit’ (TMC). However, the UBI raises a number of critical issues, both in its traditional and in its more recent ‘circuitist’ form. The aim of our paper is, therefore, two-fold: first, to provide a review of the literature in support of the UBI which, while sympathetic to the latter’s ends (e.g. human dignity, basic needs fulfilment, etc.), remains critical with respect to the means identified to deliver them; second, to point out that the very adoption of the TMC macroeconomic frame enlightens the main theoretical weaknesses affecting universal money benefits (including UBI) as means to improve material conditions of the working-class.

Key Words: Basic Income, Post-Workerism, Theory of Monetary Circuit
Ever since the beginning of political economy assessing the value of the income of a country as a proxy for the standard of living of her people has been a major issue. Smith and Pigou may be mentioned among others and in recent years a debate is taking place on the appropriate way to measure wellbeing (see Stiglitz, Sen, Fitoussi Report of 2008).

**Gross Domestic Product (GDP)** is the most widely accepted measure for a country’s economic size and performance, recently **Gross National Income (GNI)** has gained greater importance. However, increasing people’s mobility has generated huge inflows of remittances, which have major implication for the measurement of income in developing countries.

The GNI does not account for unilateral transfers - foreign aid and workers’ remittance- and it should be replaced by **Gross National Disposable Income (GNDI),** which includes both net factor incomes and unilateral transfers. GNDI is a much better way to assess the monetary resources actually available to the people of a country. Yet, GNDI is rarely available in the major international reports and datasets and is often confused with GNI in common practice. This paper tries to close this gap.

We show the differences among the three indicators for 27 countries which are the world remittance top receivers in absolute and relative terms and we provide a table with GNDI calculated for all the countries in the World Bank Database.

The GNDI should replace GNI in many applications, from the calculation of the Human Development Index, to the assessment of international poverty.

We also discuss the significance of the different income indicators and of some Balance of Payments notions in a world with high trade and factors’ mobility.
Not Beautiful, Not Just, Not Virtuous; 'And It Doesn't Deliver the Goods'. Capitalism and Fear of Goods in Keynes's Thought

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Abstract

In the General Theory, Keynes referred to the Heckscherian concept of “fear of goods” to synthetize mercantilists’ success in perceiving “the existence of the problem without being able to push their analysis to the point of solving it”. Positively impressed by their awareness of the strictly “nationalistic” character of their policies, Keynes praised mercantilists for having drawn attention to the notions of overproduction, insufficient aggregate demand and money hoarding, to the non-self-adjusting tendency of the rate of interest and the idea that scarcity of money can lead to unemployment. Still, what mercantilists saw as the solution was to Keynes part of the problem, if not one of its most troublesome manifestations, and rather a more general issue of capitalism itself as an economic system.

The paper elaborates on the significance of the notion of “fear of goods” to Keynes’s economics. We suggest that, in Keynes’s thought, the concepts of risk and uncertainty are key to understand the “fear of goods” of capitalism, and that if laissez-faire produces this fear, it is exactly because of markets’ inability to bear the risk of holding redundant stocks of goods and commodities, despite the “tremendous pressure” they exercise on the market. We then show the importance of these reflections in explaining the rationale of Keynes’s suggestions of “concerted actions” for both domestic economies – aiming at reducing the effects of the fear of goods on investment decisions – and the global architecture. We explore the connections between his advocacy of managed money, his proposals of internationally managed commodities and his attempt to recreate a conception of international trade as “a means for trading goods against goods” within a new international order intended to protect policy space from the harmful effects of globalization.
Sraffa and monetary expressions of labor time

Scott Carter

In this paper Sraffa’s analytical framework of conceiving wages and hence the value of labor-power (VLP) as the share out of value-added and/or the value of the net product is given extensive treatment wherein it emerges that living labor added is susceptible to three related monetary expressions. The first is the monetary expression of labor-time (MELT) similar to that developed in the New Interpretation (NI), with the emphasis here on the overall productivity of all productive labor (whether or not the particular industry itself is net-productive). The MELT notion developed here has conceptual resonance with Sraffa’s model wage and price determination when the rate of profit is zero and the wage share unity; in his notes Sraffa calls this the ‘value theory of labour’, and in that capacity these so-determined wages are very much in the spirit of what Pasinetti (1977, p. 122) calls the ‘complete wage rate.’ The second two monetary expression taken by living labor are really inverses of each other. The one is the relative wage rate, defined here as the MELT multiplied by the particular wage share associated with the particular distributive regime which in this paper is closed via the profit rate. This ‘monetary expression’ taken by living labor is that of the money wage rate and is here called the monetary expression of paid labor time (MEPL). This represents labor’s per unit (‘hour’) remuneration, or the quantity of money that moves ‘towards’ workers as ‘drafts’ out of total their total productivity. The final monetary expression taken here is the inverse of the MEPL, or the profit share multiplied by the MELT. This represents the extraction-rate per ‘hour’ of living labor, or the quantity of money that moves ‘away’ from workers as ‘inverse-drafts’ out of total their total productivity, and this we call the monetary expression of unpaid labor time (MEUL). This latter magnitude is the conceptual analogue to Marx’s untransformed profits and as well as Sraffa’s ‘pool of profits’. And it is here the theory of exploitation explicitly enters into a more general theory of wage labor which emphasizes not only the remunerative aspect of the wage relation but also the extractive one as well. The concluding section emphasizes that the share approach to the VLP although distinct from the ‘given’ bundle approach certainly is compatible with it and in fact both belong as conceptual categories of analysis (albeit perhaps at different levels of abstraction and/or directed to different aspects of the same question) in the development of a more general Marxian theory of wage labor.
Keynes as an investor. A comprehensive analysis
Nicolò Cavalli

From around 1905 until his death in 1946, Keynes had been involved in the stock, bond, currencies and commodity markets on his own, as King’s College’s First Bursar and as member of the boards of several institutions. Accounts of his activity as a speculator has been renowned but, until recently, have been backed by anecdotal evidence, with the notable exceptions of Moggridge (1983, 1992), Chua and Woodward (1983) and Mini (1995). In recent years, and following the renewed interest toward Keynes’s analysis of financial markets – which in his own word relied also on practical experience (CWK XIII: 627-8 inter alia) – a growing number of studies have started to study Keynes’s investments in a more rigorous fashion. Chambers and Dimson (2012) and Chambers, Dimson and Foo (2013) focused on Keynes’s activity on the stock market managing King’s College’s endowment, while Fantacci, Marcuzzo and Sanfilippo (2010), Marcuzzo (ed. 2010) and Marcuzzo and Sanfilippo (forthcoming), investigated the relationship between Keynes’s views on commodities markets and his activity as an investor on the same markets as a solo investor. Building on these contributions, the present study reconstructs the positions of Keynes’s personal dealings in commodities markets during the 1920s and 1930s. It also introduces an early attempt of extending the account of Keynes’s dealings in other markets, aiming at reconstructing his general portfolio. This allows comparability with previous works and makes possible to shed some lights on Keynes’s constraints and benefits from being an institutional rather than a solo investor. The aim of the work is the one of verifying whether there are effective changes in his investment techniques throughout time and of understanding whether and how these changes can be related to Keynes’s theoretical framework.
Educated in the best Italian cultural and economic tradition, Augusto Graziani was a scholar of an unparalleled finesse and erudition. These qualities appear clearly in his book *Equilibrio generale ed equilibrio macroeconomico*, where the logical weaknesses of the walrasian treatment of capital are exposed in a pitiless fashion, going even beyond the arguments used by the UK side in the Cambridge controversies.

In this book Graziani also lists in a neutral way the conditions under which the walrasian assumptions hold, stressing the very stringent, or practically irrelevant, circumstances under which they are generally fulfilled.

This critique provides the basis for a reconstruction of microeconomics upon macroeconomic bases, which was completed almost 40 years later with *The Monetary Theory of Production* (Graziani, 2003).

The prominence of macroeconomics over microeconomics implies clearly that attempts to marry Keynes with Walras are doomed to fail and paves the way for Graziani’s influential reading of Keynes’ *A Treatise on Money, General Theory* and *Finance Motive* (Graziani, 1981 and 1987).

In terms of the current policy debate, Graziani’s analysis demonstrates that the complete neglect of effective demand and distribution in the formulation of EU policies lacks solid rational foundations. To get out of a slump, and, in general, to make a federation work, effective demand must be supported in the weakest regions (of a country or of a federation), so as to increase the value of the public expenditure multiplier to the benefit of all residents.

References:
The multiplier-accelerator process

A historical review in monetary and barter economies

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Abstract

This paper presents a review of the multiplier and accelerator processes against the background of static, dynamic, barter, monetary, stationary, growing, and closed or open economies. The aim is to provide a synthesis that could be of help in interpreting empirical estimates.

The discussion starts from Joan Robinson’s distinction between logical and historical time. Robinson (1956, 1962 and 1974) argued that neoclassical theory could be associated to equilibrium and logical time, whereas post Keynesian analysis works in historical time, where equilibria are path-dependent (Dutt, 2005). Somewhat extending this notion, one can contrast logical (or abstract) time with chronological (or calendar) time. The former covers both stationary (or static) and historical/sequential (or dynamic) time, whereas the latter refers to the actual time where one lives, where auditing accounts are established and where economic policy errors can be possibly observed, acknowledged and corrected. While taking place in calendar time, the formation of expectations refers naturally to logical time, as most economic models are defined in logical time, but realisations can only be observed in calendar time. Thus it is only through the confrontation of the two categories of time that the possible disappointment of expectations can be discussed, which relates to the definition of equilibrium and disequilibrium, since divergence of reality from expectations is a condition for the definition of disequilibrium, as emphasized by Hahn (1958, 1984, 2008) and other authors. In logical time, the multiplier can be viewed as a sectorial equilibrium condition for balanced growth, although when associated with the notion of accelerator, it can generate deterministic oscillations and possibly path dependency and chaos. In calendar time, and coupled with the presence of autonomous demand shocks, the (super-) multiplier depicts an “out of neoclassical equilibrium” phenomenon where income distribution impacts on allocation and growth. The multiplier and the accelerator thus depend on income distribution (Kalecki, 1942), a point retained also by the theory of the
monetary circuit and by the Sraffian approaches and neglected by the mainstream assumption of a permanent equilibrium of maximum efficiency.
The links between economic theory and empirical analysis in Augusto Graziani’s economic thought

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Abstract.

Augusto Graziani (1933-2014) was well-known in Italy and internationally both for his innovative contributions in the field of economic theory, and for his applied studies on the Italian economy. It may appear at first sight that these two lines of research have no connections with each other, simply reflecting the multifarious interests of a curious, penetrating mind. However, it can be shown that it is not so: as a matter of fact, there are close links connecting the theoretical models that inspired his ways of thinking, and indeed he himself contributed to build, and the empirical research that he carried out. This paper reconstructs the links between his two lines of research by focusing on three issues which are particularly illuminating in this respect: (1) his concept of dynamic processes, which influenced both his criticism of general equilibrium theory and his analysis of the development of the Italian economy in the post-war period; (2) his concept of a monetary economy of production, which influenced his empirical research in the Seventies and after; (3) his version of the theory of the balance of payments, which lies at the root of his interpretation of the integration of Italy in the international economy.
Cyclically Adjusted Budget: History and Exegesis of a Concept

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The concept of Cyclically Adjusted Budget (CAB) is often and mistakenly said to be legacy of Keynes. On the contrary, it was first conceived in Sweden in 1930s, by the economists of the Stockholm School and soon reinterpreted and incorporated into the fiscal program of the American political coalition supporting the New Deal (especially the Committee for Economic Development). Later on, in the 1960s, the Keynesians brought to wider public attention a new reformulation of the concept, that was quite different and explicitly opposed, even, to that of the original authors, but coherent with the project of recuperating Keynes into the neoclassical theory, successfully initiated a few decades earlier and overseen throughout by the Committee for Economic Development.

Similarly imprecise is the widespread idea that the CAB can prevent contingent political matters from intruding in fiscal policy decisions, by lending itself to a mechanical application as a budgetary target and fiscal soundness criterion. Indeed, in times when technical is synonymous with credible and independent, the concept of CAB conveniently appears as a practical tool that is a direct emanation of a firm scientific discipline (Economics) and, as such, trustworthy.

The idea cannot be more misleading as there is, and has always been, very little agreement among and within the different schools of economic thought about whether it is appropriate to anchor fiscal policy to a fixed automatic rule or rather use the CAB for pure informative purposes. Also its methods of calculation are subject of a debate, concerning relevant theoretical matters such as the impact of wages, employment and aggregate demand on the public budget balance.

This paper retraces the evolution of the concept, its formulation and its methods of estimation, tying them to the history of economic thought as well as economic history. In the process, we will see how economic theory, economic policies and power are inextricably entangled.
Public goods and the commons, some preliminary reflections

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The spread of the economic crisis has opened a window of opportunity for a collective reflection about dynamics of growing complexity and interconnections. In turn, this leads to a transformation of the paradigms and perceptions, especially as regards the economic crisis as an epiphenomenon of environmental, social and political challenges. In this context, the theme of the commons, as related to problems of collective action, is gaining momentum. As McCay suggests (2006), this issue is in fact strictly related to current requests by social movements and citizens to recollect new social bonds, democratic participation and the right to nature and culture, threatened by temptations of greed within the market domain.

Moreover “commons” can be conceived as a topic historically related with a main “substantive” economic problem involving a process of decision and rule-making related with the use, access, withdrawal and property of natural resources and basically linked with three main sub-sets: appropriation, groups, and environmental-social externalities as market failures.

Because of the high number of matters and fields involved and intertwined within this issue linking facts, theories and policies in a complex bundle of perspectives, long time before the appraisal of Hardin’s "Tragedy of the commons" and Ostrom’s studies on Common Pool Resources, many authors had explored different approaches to the problems concerning the nature of the commons, swinging between private and public goods. For this reason, the issue of the commons has developed along human history and economic literature, enriching itself of contents and emerging questions in the domain of political-economic management of resources by communities and groups, local and national policies, environmental pressures and so on, launching seeds for fruitful interdisciplinary paths of research. Along this walk, the notion of the commons is now transforming also its meanings and understandings beyond the célèbre current definition of common pool resources provided by Ostrom by the underlying action of groups and historical events.

Starting from the economic debate about the notion of public and collective goods, the paper tries to illustrate part of the debate on public goods and the definitions of the commons, in order to provide some insights about this topic and its definition, and to design a brief analysis of emerging processes related to facts, theories on governance of the commons, potential limits and related policies.
The paper presents a research project aimed at reconstructing Ricardo’s ‘cast of mind’ as well as at demolishing some die-hard Ricardian mythology.

I argue that a number of important biographical details have been overlooked by Sraffa (1955) because of his own secularist and positivist prejudices, plus a handful of Freudian troubles related to his own identity crisis as an Italian secular Jew acting as a mirror to Ricardo’s shifting identity, that of a Portuguese-Italian-Dutch-English Christian Jew. Besides, that, while much has been added by Henderson in terms of biographical details, the outcome is disappointing in terms of light to be shed on Ricardo’s intellectual background. For one, see Henderson’s confident assertion that Ricardo’s Unitarianism verged on Atheism. Davis has done an admirable work in filling up blanks left by Henderson, but his efforts have led to a somewhat odd result, namely to a number of chapters on Ricardo’s economic theory assembled together with a number of purely biographical chapters. The intermediate ground, namely Ricardo’s intellectual upbringing, his exposure to political, religious, philosophical and methodological ideas of his time and place, has been left out.

The aim of my research program is precisely unearthing the missing links. What I try to do is contextual history, trying to assemble evidence from never reprinted material from his time and, as far as possible, manuscripts, trying to avoid such a-priori historical reconstructions as Milgate and Stimson and Milgate’s. The bulk of the work consists in a reconstruction of ideas, theological, philosophical, and scientific, to which Ricardo had – beyond any possible doubt, given those biographical details that are by now a matter of consensus – be exposed during a considerable part of his life, among them the Unitarian divine Thomas Belsham’s theological and philosophical ideas. I then try to point at paths leading from such ideas (a ‘Newtonian’ methodology without the forth rule, a theory of language inspired to Horne Tooke’s program of reducing meaning to sense data, a proto-positivist refusal of ‘metaphysical’ enquiries) to a few familiar quandaries in Ricardian scholarship, from the Marxists’ aprioristic rationalism to Schumpeter’s diagnosis of a ‘Ricardian vice’, from Keynes’s ‘head in the clouds’ to Hutchinson’s ‘Millian utilitarianism’. My tentative conclusion is that Ricardo was no agnostic in religion, no "un-philosophical" social scientist, and no modern market-oriented political theorist. He was, unsurprisingly, a man of his age: a Christian Enlightener, a moderate sceptic, and a liberal or a ‘friend of humanity’. This, far from lessening our interest in his system of ideas, contributes instead in making his overall image less strange than received hagiography and perhaps also more exciting than current reconstructions.
On the import of J.S. Mill’s criticisms of Bentham for contemporary Subjective Utility Theory

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According to Mill, Bentham’s assumption that all behaviour is ruled by the avoidance of pain and the search for pleasure is ambiguous, and it is liable of two different interpretations. Indeed, Mill rejected both possible interpretations, on grounds of logic and of psychological and sociological observation. What remains is a complex view of the human being, largely different from the Homo Economicus hypothesis that the historiographic literature frequently attributed to Mill.

**JEL codes:** B12, B41, D01, D02

**Keywords:** J.S. Mill, theory of behaviour, subjective utility theory
During the Seventies, Italy was hit by a dramatic economic crisis and stagflation; in 1976 Guido Carli, appointed chairman of the Italian industrial association (Confindustria), tried to find a way out suggesting a new path for growth and development. He thought firms should be free from government and bureaucracy “laces”, but at the same time asked them to run a fully transparent management; at the same time, rent-seeking positions, public intervention should be abandoned and firms should open themselves to national and international competition.

This, he thought, was the only possible way to legitimate their requests to trade unions, parties and government, in a framework of economic bust, low capital accumulation, inflation and unemployment; considering pluralism and competition as the main factor of economic and social development, Carli believed in firms as driving forces of innovation and growth.

The paper aims to affirm that the initiative built up by Confindustria tried to give Italian economy a “competition law” which _ante litteram_ outlined the one we later obtained in the Nineties through European guidelines, in order to modernize the country. In the Seventies, Italy proved incapable of tying itself with rules of conduct, accepting and empowering an “external constraint”.

We will firstly provide an economic and historical-istitutional framework of that period; we will then describe the making and the contents of the “Statute of the Firm”; finally, we will report some critics around the debate on this proposal, and why the Statute was rejected by entrepreneurs themselves.

Al fondo del pensiero di Bertolino sta un principio idealistico non riducibile alle grandi famiglie dell’idealismo italiano a cavallo del ‘900, e tutto orientato verso la definizione di una società ispirata da principi di liberalismo sociale o socialismo liberale e umanistico in cui si riconoscono le principali influenze degli anni di formazione: Salvemini, Carlo Rosselli, Gobetti, Sorel, il cattolicesimo sociale. Da qui il suo rapporto di dialettica conflittuale con il liberismo einaudiano, e l’attenzione per il corporativismo nella versione di Ugo Spirito anche se con importanti distinzione sulle implicazioni sindacali e sulla inconsistenza della articolazione economica del progetto fascista. Da queste posizioni, inevitabile nel 1945 la sua confluenza nel Partito d’Azione che, nella componente toscana, riuniva liberalsocialisti e socialisti liberali intorno al disegno di una “terza via”, né capitalista né social-comunista, lungo cui ricostruire l’economia italiana. Si è anche parlato di Bertolino come uno dei primi a importare il pensiero di Keynes in Italia, ed è vero. Ma va precisato come egli vedesse nelle politiche di stabilizzazione keynesiana una strategia di difesa del capitalismo non in linea con i programmi ben più radicali che in quest’epoca gli apparivano realizzabili. E’ solo dopo la dissoluzione del Partito d’Azione e il venir meno di tante promesse contenute nella Carta del 1948 che un Bertolino disincantato ma pragmatico rivaluta le politiche keynesiane come il miglior ripiego possibile nell’orizzonte storico della società italiana post-bellica.
L'Economia politica dell’”Abbandono” nel pensiero anti-imperialistico di Hosea Jaffe tra Capitalismo e “AIMismo”.

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Lo sviluppo del sottosviluppo
La relazione dialettica tra centro e periferia nell’analisi di Andre Gunder Frank
di Riccardo Evangelista
dottorando di ricerca in Sviluppo Economico-Università di Macerata

Abstract


Agli antipodi di questa visione si colloca la scuola della dipendenza latinoamericana e in particolare l’opera di Andre Gunder Frank. Quest’ultimo, studioso tedesco ma latinoamericano d’adozione, ha coniato, a partire dal volume Capitalismo e sottosviluppo in America Latina (1967), l’espressione “sviluppo del sottosviluppo”, che sintetizza efficacemente l’approccio metodologico del suo pensiero. Il sottosviluppo economico non viene interpretato come una condizione originaria dovuta al ritardo storico, ma, al contrario, è visto come il prodotto dialettico dello sviluppo capitalistico nel suo complesso, che, attraverso un drenaggio costante e istituzionalizzato di surplus economico, crea e perpetua l’arretratezza della periferia concentrando la ricchezza al centro, in una relazione gerarchica di lungo periodo. L’analisi di Frank, quindi, si concentra sulla dimostrazione storica che sviluppo e sottosviluppo sono due facce della stessa medaglia, l’una la conseguenza dell’altra, e nega pertanto qualsiasi visione dualistica dei fenomeni economici, espressa nelle varie analisi sui retaggi feudali delle periferie.

In seguito ai fallimenti delle varie politiche di sviluppo e a una concentrazione della ricchezza mondiale ancora estremamente polarizzata, è forse opportuno chiedersi cosa è ancora possibile accogliere costruttivamente dall’analisi-denuncia di Frank e dal pensiero dipendentista nel suo complesso.
ABSTRACT

Before the US subprime crisis of 2008, a convergence of views in macroeconomics was emerged. Eminent macroeconomists had been arguing that there was no longer any fundamental disagreement among them about aims and methodology of the discipline. The systematically wrong predictions, and especially the failure in providing a plausible explanation of the US crisis and the subsequent global financial instability and economic recession, represented a serious blow for the reputation of the ‘new consensus’ model. However, this model is still the core of both publications in macroeconomics top journals and policy-making, particularly central-banking. In a sense, the new consensus model represents a progress over the old ‘monetarist’ approach and its subsequent developments. Theorists of the new consensus’ view (partially) reject the quantitative theory of money in favour of a weakly endogenous theory of money. In the wake of the Wicksellian ‘two-interest-rate model’, they focus on the central bank’s targeting of the interest rate, whereas monetary aggregates are treated as residual variables. In spite of this remarkable theoretical innovation, however, banks and financial institutions are usually neglected. So the two questions of the origin of ‘financialization’ and of why capitalist economies are prone to financial instability and recurrent crises, remain unsolved. This should sound rather odd if one considers that this class of models is adopted by the most part of central banks around the world. Against this background, three are the chief aims of the paper: first, we provide a critical analysis of both the original new consensus macroeconomics’ model and some recent developments of it; second, we show that few amendments to the benchmark model are sufficient to make it account for the tendency of real-world economies to reach several path-dependent equilibria; third, we argue that some interesting corollaries in policy-making logically follow once the role of credit and finance is modelled.

KEYWORDS

New Consensus Model, Keynesian Economics, Hysteresis of Output, Endogenous Money, Financial Accelerator

JEL-CLASSIFICATION CODES

E12, E43, E44, E47, E58
American Economists and Legal Formalism: Freedom of Contract in the 1886 Science Debate

Tiziana Foresti and Nicola Giocoli

Abstract

This work analyzes the link between law and economics in the early years of the Progressive Era (1885-1915). Specifically, the present work proposes a new interpretation of the relation between American legal thought and the debate on the economic method that took place in the magazine Science from March to July 1886. The debate opposed the new school of political economy against the old school. Broadly, the articles written by the “new schoolers” (among them: Richard T. Ely, Henry Carter Adams, Edmund James and Richmond Mayo-Smith) focused on four hallmarks: 1) the emphasis on the role of the State 2) the relativity of economic laws 3) the historicity of individual behaviour and 4) the claim for the inductive method. The answer to their arguments came from Frank Taussig, Arthur T. Hadley and Simon Newcomb. We claim that the opposition between the historical, statistical, ethical and deductive methods was, in part, a “cover argument”. The attack against the old school on method was motivated more by its “conclusions” in terms of economic policy, rather than by the irreconcilability between inductive and deductive methods. In a nutshell, the actual point under discussion was the extent of state intervention in the regulation of economic activity and was strictly related to the rise of so-called Legal Formalism in American jurisprudence. The core Formalist principles were freedom of contract, faith in laissez faire and the undesirability of government regulation and redistribution – as it happened, these were also the central ideas of the Classical paradigm in economics, though not necessarily those of “old school” economists. Therefore, we propose a new reading of the 1886 debate in the light of the ongoing transformation of late 19th-century American jurisprudence and of the economists’ reaction to it.

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CREDIT RESTRICTION AND UNEMPLOYMENT IN AN EXPANDED VERSION OF THE MONETARY THEORY OF PRODUCTION

by Guglielmo Forges Davanzati*

JEL: B00, E5, J01
Keywords: endogenous money, bank credit, labour market

ABSTRACT

Evidence shows that, in most European countries, both credit restriction on the part of banks and the reduction of the demand for credit on the part of firms are in operation. This is particularly intense in Italy. The aim of this paper is to show that both phenomena ultimately depend on the decline of aggregate demand, insofar as it adversely affects firms’ solvency. A macroeconomic schema is presented, based on Graziani’s view that the operation of the credit market can trigger economic crises (Graziani, 1994; 2003). Keynesian and Institutional arguments are also considered in order to analyse the links existing between the dynamics of the credit market and the path of wages and employment.

The arguments presented in this paper depart from basic schema of the monetary theory of production (MTP) on three grounds.
1) On the methodological plane, it can be argued the MTP can be enriched if it is given a microeconomic basis, while not necessarily entailing a contamination with the Neoclassical approach. In particular, it is to be stressed that “radical” Institutionalism offers very interesting hints for moulding individual behaviour according to the principle that it is norm-driven and basically depends on class affiliation, thus giving rise to a “macrofoundation of microeconomics”.
2) As regards the logical structure of the MTP, it is stressed that the basic schema of the MTP suffers from internal inconsistency (cf. Chapman and Keen, 2006; Forges Davanzati, Pacella and Patalano, 2013), with particular reference to the so-called “paradox of profits”. Since firms can only recoup the total amount of the initial finance (in the best case of unitary propensity to consume on the part of workers), there is the problem of how they can make sufficient revenue not only to pay interest, but also to make a profit.

The emergence of this paradox is due to the fact that the basic schema of the MTP sets out to describe the working of a credit economy starting solely with credit creation, in the absence of initial (monetary or real) endowments.
3) In the basic schema of the MTP, capitalists cannot consume because banks solely finance production. This is in fact a very restrictive assumption, which, in turn, is logically derived from the assumption that – at the beginning of the circuit – capitalists do not own monetary resources, and that they cannot become indebted to finance their consumption. This paper also considers the role of luxury consumption on the part of capitalists in affecting the dynamics of aggregate demand and in intensifying economic crises.

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References


Luigi Einaudi: dai *Miti e paradossi* alle *Ipotesi astratte* discutendo con Fasiani

Amedeo Fossati

a) Einaudi ebbe una lunga evoluzione epistemologica, stimolata da discussioni con Croce, Michels, Del Vecchio e Fasiani. Il punto che si vorrebbe chiarire in questo lavoro è il ruolo giocato dalla discussione con Fasiani, che ebbe luogo dal 1938 al 1943. La discussione fu originata sostanzialmente dalle loro differenti idee rispetto al ruolo della scienza e della storia.

b) La prima fase della discussione avvenne esclusivamente per lettere private, iniziò nei primi mesi del 1938, quando Einaudi pubblicò *Miti e paradossi della giustizia fiscale*. Fasiani ritenne che questo libro avesse segnato un cambiamento nella posizione di Luigi Einaudi di fronte al problema della conoscenza in economia finanziaria. Così, gli scrisse immediatamente una lettera di 36 pagine, che era una critica all'approccio epistemologico dei *Miti e paradossi*. Tuttavia, non la spedì, perché ebbe il dubbio che potesse essere considerata irrispettosa. Pochi mesi dopo scrisse una seconda lettera, anch’essa non inviata, anche se ho mostrato altrove che Einaudi ne venne a conoscenza.

c) La seconda fase della discussione iniziò alla fine del 1941, quando Einaudi pubblicò una recensione al libro di Fasiani *Principi di Scienza delle Finanze*, in cui sollevava delle critiche che sostanzialmente continuavano la discussione epistemologica iniziata con i *Miti e paradossi*. Inizialmente la discussione avvenne mediante lettere private: Fasiani rispose all'articolo il 12 giugno 1942 con una lettera di 3 pagine accompagnata da un manoscritto di 27 pagine, al quale il 21 giugno Einaudi rispose con una lettera di 14 pagine. Poi, sempre nel 1942, Einaudi pubblicò altri due articoli, e nel 1943 un ultimo saggio sostanzialmente ancora sul libro di Fasiani, ossia *Ipotesi storiche e ipotesi astratte*. Appena Fasiani lesse il primo di questi articoli, e allo stesso tempo fu informato da una lettera Einaudi dell’esistenza degli altri due, chiese a Einaudi il permesso di rispondere con un articolo su una rivista.

On the long-lasting consequences of the Pasinetti-Solow debate on productivity measurement

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Abstract

It is hardly beyond doubt that Solow’s (1957) proposal for “an elementary way of segregating variations in output per head due to technical change from those due to the availability of capital per head” (Solow, 1957, p. 312) leading to the ‘residual’, and hence, TFP growth, has been one of the crucial developments of Marginalist economics of the last century. This notwithstanding, the critique of (and alternative to) Solow’s proposal advanced by Pasinetti (1959) — with his contribution ‘On Concepts and Measures of Changes in Productivity’ — has not been equally acknowledged. Such a debate came to the fore again when a posthumous note by Richard Stone (1998[1960]) triggered a further round of exchanges between the original authors (Pasinetti, 1998; Solow, 1998). This paper aims at retracing the key conceptual aspects of the discussion, pointing to some limitations of Pasinetti’s (1959) original implementation of his measure of productivity changes, and providing an Input-Output generalisation based on Pasinetti’s (1981; 1988) notion of hyper-integrated labour. Seen in this light, Pasinetti’s (1959) computable measure of technical change may provide a theoretically sound alternative to perform productivity analyses from a Classical perspective.

Keywords: Labour Productivity, Vertically (hyper-)integrated sectors, Total Factor Productivity, Input-Output Analysis

JEL Classification: C67, B51

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La lobby europea della difesa e della sicurezza e le istituzioni comunitarie: un approccio bisettoriale

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La lobby europea dell’industria militare ha partecipato alla creazione delle strutture operative e istituzionali necessarie allo sviluppo di una politica di difesa europea. I suoi tentacoli sono sempre presenti nelle istituzioni di Bruxelles. Essa influisce altresì sulle decisioni riguardanti le politiche di sicurezza estera dell’Europa. In termini generali le lobbies o gruppi di interesse, possono definirsi come gruppi di pressione il cui obiettivo si esplica nell’influenzare le leggi, i regolamenti, l’adozione di norme (sia industriali che riguardanti la cooperazione), e in generale, ogni decisione al fine di difendere e favorire i propri interessi economici. Esistono molteplici approcci teorici suscettibili di essere mobilitati al fine di analizzare l’operare della lobby europea della difesa nei confronti delle istituzioni comunitarie. Per lo studio in oggetto si è deciso di adottare l’approccio istituzionalista. Si possono identificare diversi “istituzionalismi”. In generale saranno distinte due macro-categorizzazioni: il “vecchio istituzionalismo” e la “nuova economia istituzionale”, tenendo comunque in considerazione il fatto che anche all’interno di queste due macroaree le differenze sono molto importanti. Il “vecchio istituzionalismo” nasce dalle contestazioni apportate alla scuola classica e rifiuta i concetti di “individualismo metodologico” e di un soggetto razionale che massimizza la propria utilità. In tale quadro speculativo, l’individuo tende alla soddisfazione dei suoi obiettivi piuttosto che alla loro massimizzazione. In tale analisi delle relazioni tra la lobby della difesa e le istituzioni comunitarie ci approprieremo del concetto vebleniano secondo cui l’economia è una scienza evoluzionista. Come sostenuto da Chavance (2007), « la società in generale e l’economia in particolare sono degli insiemi evolutivi d’istituzioni » che giungono a noi nel corso della storia. Il concetto di causalità cumulativa che sostituisce il vecchio schema “causa-effetto” con il nuovo “causa-effetto-causa”, proposto dalla scuola vebleniana e dall’istituzionalismo evoluzionista, costituisce un quadro analitico pertinente al fine di studiare il ruolo della lobby delle armi, nella costruzione politica e economica della difesa europea, nella misura in cui le attività di lobbying e di compenetrazione dei poteri (economico, politico e militare) implicano una causalità retroattiva e non determinista. Sulla base del ripartizione delle lobbies della difesa proposta da Beckley (2012), si cercherà di ampliarne l’analisi identificando e classificando altre lobbies al fine di fornirne una panoramica più completa possibile. In una parte applicativa sarà sottolineato il ruolo assunto dalle componenti pubbliche e “istituzionali” rispetto a quello adottato dalle componenti private dell’industria, dei servizi e del mercato.
Property and honours: distributive conflict and political order in the thought of Machiavelli

Alberto Giacomin

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ABSTRACT

The dominant idea among economists is that the main concern of economic science is the efficient use of resources. In this state of affairs the question of distribution loses much of its relevance insofar as it is assumed that by determining the price of the factor services the market is able to guarantee every individual a share of income proportional to his/her contribution to production. In the early days of the modern age, Machiavelli, a keen reader of the classical authors, developed a different approach. In his writings the analysis of forms of government has much to do with the distributive conflict between the social classes. Society is based on collaboration between individuals, but for this to work a criterion must be established for the distribution of the costs and benefits of the activities carried out in common. In other words, the need is for a rule establishing the ways of access to economic resources, and indeed the distribution of the final product amongst the members of society. No such rule exists in nature: it is an artificial construct the effectiveness of which lies ultimately in the hands of a figure able to guarantee that it is respected. If the threat of sanctions does not suffice to serve this purpose, then the holders of power must resort to force. Power and force are the means to allay distributive conflict and stabilise social harmony, guaranteeing the regular functioning of economic activity.
Augusto Graziani, il Mezzogiorno e gli squilibri regionali

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Abstract.

Un intervento sulla figura di Augusto Graziani, anche se centrato necessariamente su un aspetto del suo lavoro non può non riflettere la ricchezza di analisi e di contributi del suo magistero. Della lunga esperienza di collaborazione e confronto, ritengo essenziale proporre una riflessione che fu in lui costante e determinante, centrata sull’analisi del nesso sviluppo e crescita dell’ economia italiana: un nesso la cui problematicità è stata determinante nel far maturare i suoi apporti sul terreno della teoria. Graziani è un economista politico in senso proprio che trova nell’ interpretazione delle vicende, dei problemi, delle contraddizioni i motivi profondi del suo contributo allo sviluppo della teoria. Esso si sostanzia in un lucido, progressivo superamento del concetto di equilibrio, patrimonio della sua originaria matrice neoclassica, per approdare ad una visione nella quale la disoccupazione delle risorse è la norma dell’ equilibrio di un’ economia monetaria di mercato. Il che se lo accomuna certamente ad una ( minoritaria) tradizione Keynes-Wicksell, si esprime però in modo del tutto originale nella sua teoria del circuito. Di fronte alla “naturale” indeterminatezza dell’ equilibrio l’ esigenza di governare l’ economia attraverso un percorso di sviluppo, trova costante motivo e riscontro nei suoi contributi, a partire dalle analisi della relazione nord-sud del Paese. Graziani appartiene non per caso alla schiera di quei neomeridionalisti artefici e critici al tempo stesso dell’ esperienza della ricostruzione e del miracolo economico e – soprattutto – è un disincantato e severo critico delle illusioni distrettualiste di cui si è fino a ieri nutrita gran parte dell’ accademia. Le sue riflessioni sul tema dell’ economia italiana nel contesto dell’ UE integrano gli aspetti monetari e valutari, con le vicende strutturali del nostro dualismo prospettando, in anni non sospetti, una chiave interpretativa che ben indicava verso quali lidi si stava navigando.
The Economic Effect of Corruption in Italy:  
A Regional Panel Analysis

Maurizio Lisciandra and Emanuele Millemaci
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ABSTRACT

This paper provides an empirical analysis of the impact of corruption on economic growth using a panel of Italian regions from 1968 to 2005. The investigation shows a significant effect of corruption on regional economic growth when considering the entire time interval and appropriately controlling for various variables that influence growth. However, when controlling for the years in which clean hands operation has deployed its effects, the impact of corruption is not as robust. As demonstrated by similar studies in other countries, once variables and events are properly controlled, regional differences in the levels of corruption do not seem to explain the different growth rates. Cross-country empirical literature instead shows the opposite, probably suggesting that unobserved institutional differences among countries are responsible for the evidence of a negative effect of corruption on economic growth.

Keywords: corruption, growth, cross-regional analysis.

JEL: K14; O43; R11.
Robert Triffin: a hedgehog in pursuit of European monetary integration

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Abstract

Robert Triffin was both an eminent academic and an influential policy advisor (especially to Jean Monnet and the European Commission). He became famous with trenchant analyses of the vulnerabilities of the Bretton Woods system. This paper, based on original archival research, shows Triffin's central role as the "arch monetarist" in the debates on European monetary integration. In Triffin's view, the so-called "own house-in-order" approach, very influential in Germany, was not sufficient for a sustainable international and European monetary system. In order to tackle the flaws inherent in the system, Triffin pursued a two-pronged strategy with proposals for a global reform and, as he doubted the feasibility of such reforms, a regional approach, starting with the European Payments Union. After the Treaty of Rome, he developed proposals for a European Reserve Fund and a European currency unit. While many of his ideas were rather utopian, they were influential in shaping the debates and preparing minds for the euro.
Keynes and the commodity option markets

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JEL Code: B26; B31; N20; N50
Keywords: Keynes; speculation; commodity options; strike prices; futures prices; market trends

1. Introduction

In the first quarter of the 20th century options began to be widely employed in the main financial centres in Europe and the United States for trading in spot and futures markets. From 1921 on, Keynes embarked upon investment in these derivatives mainly—but not exclusively—in the commodity markets, showing a true fascination for this method of speculation. This type of financial investment he pursued mainly in the 1920s, with only a few operations undertaken during the 1930s. The option markets in which Keynes traded were metals, and in particular copper, lead, spelter and, especially, tin. Besides metals, Keynes dealt in options also in other commodity markets, such as rubber and linseed oil, and sparingly in ordinary stocks and government securities.

In this paper we offer a reconstruction of Keynes’s speculative activity in commodity options drawing on the archival material kept in the Keynes Papers held at King’s College, Cambridge. This reconstruction is, to the best of our knowledge, entirely new to the literature and aims to provide an analysis of this particular aspect of Keynes’s investment behaviour, investigating his capacity to predict market trends and offering a preliminary assessment of his performance.
“It can’t happen, it’s a bad idea, it won’t last”. American Economists and the Euro; a Reappraisal

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Abstract
Soon before the euro started to circulate among European citizens, Rudiger Dornbush (2001) wrote, about the new currency: “It can’t happen, it’s a bad idea, it won’t last”. Although not unanimously shared, this strongly pessimistic vision was behind most of the contributions that economists from the US provided to the debate on the euro since it was first designed with the publication of the Delors’s report in 1989. Krugman, Feldstein, Dornbush, Bayoumi, Kenen, Eichengreen, McKinnon, Tobin and many others provided a vast literature on the risks and opportunities of the European single currency.

Recently, Jonung and Drea (2009) claimed that the sceptical attitude of the American economists depended, in particular, on the excessive (and distorted) use of the theory of Optimum Currency Areas. Accordingly, most of them highlighted how the sustainability of the project depended on greater factors mobility, on fiscal federalism and central redistribution, on the need to allocate more discretion power to the European Central Bank, etc. That paper revitalized the debate among US economists, who provided new insights on the problem of European political, economic and monetary integration.

The aim of the paper is to illustrate the contributions the American economists gave to the debate on the EMU and the euro, making a new assessment of their role and trying to understand which critiques should nowadays be considered not instrumental to the desired failure of the project (as Jonung and Drea suggested) but precious suggestions for the long-term success of the euro.
Il contributo teorico del circuito monetario: in ricordo di Augusto Graziani
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Abstract.

Il più rilevante contributo teorico di Augusto Graziani ha riguardato il cosiddetto schema del “circuito monetario”, fondato su una rilettura di grandi autori del passato (dal Marx del secondo libro de Il capitale al Wicksell di Interesse monetario e prezzi dei beni; dallo Schumpeter della Teoria dello sviluppo economico ai modelli sequenziali di disequilibrio propri agli anni dell’"Alta teoria"). Questa rilettura ha permesso di ottenere tre risultati importanti: (i) individuare un nuovo filone di storia dell’analisi economica, che poneva in rilievo i legami intercorrenti fra autori fino a quel momento poco collegati; (ii) riproporre lo schema generale di analisi del processo economico, che è alla base dell’impianto di tali autori e che si contrappone sia al programma di ricerca neo-walrasiano che allo schema in un punto nel tempo proprio alla Teoria generale di Keynes; (iii) sottolineare la crucialità delle forme endogene di immissione dei mezzi di pagamento nel sistema economico quale prius che condiziona i processi produttivi e distributivi e che determina l’apertura in sequenza dei diversi mercati. Il mio intervento si articola in tre punti. Innanzitutto, esso richiama i tratti essenziali dello schema di base del circuito monetario nella versione di Augusto Graziani (1984, 1989, 2003). In secondo luogo, esso denuncia alcuni limiti analitici di questo approccio: la mancata microfondazione della macroeconomia (o macrofondazione della microeconomia), la conseguente mancanza di un’analisi delle determinanti che spiegano le scelte dei diversi aggregati o dei singoli attori economici (per esempio, i comportamenti bancari di offerta di credito o i comportamenti imprenditoriali di domanda di credito), l’insufficiente nesso fra sequenza uniperiodale e sequenza fra periodi (Lundberg 1939; Hicks 1956). Infine, il mio intervento mostra che lo schema di “circuito monetario” non cerca di superare tali limiti utilizzando categorie analitiche dei nuovi filoni eterodossi (economia dell’informazione, neo-istituzionalismo, economia dei diritti proprietari, e così via).
This paper examines how some of the main exponents of the Austrian school of economics addressed the issues related to the measurability of utility. The first part is devoted to the period before World War I. During this period, Menger and Wieser treated \textit{de facto} utilities as if they were measurable and could be expressed as multiples of a utility unit, Böhm-Bawerk and the young Schumpeter defended explicitly the measurability of utility, while, in contrast to these views, Čuhel and Mises argued that utilities cannot be measured but only ranked. After World War I, the ordinal view became the dominant one among Austrian economists but they admitted that individuals are not only able to rank the utility of goods (as in the ordinal approach), but are also capable of ranking differences of utility. The second part of the paper reconstructs the interwar discussions on the ranking of utility differences, focusing on the contributions of Schönfeld, Rosenstein-Rodan, Morgenstern and Alt. The paper concludes by illustrating Hayek’s ordinal view of utility.

\textbf{Keywords}\n
Austrian school; Utility theory; Measurability of utility; Classically measurable utility; Ordinal utility; Cardinal utility.

\textbf{JEL Classification}\n
B13, (History of Economic Thought through 1925, Neoclassical); B21 (History of Economic Thought since 1925, Microeconomics); B31 (History of Economic Thought: Individuals); B40 (Economic Methodology, General); D11 (Consumer Economics, Theory).
International commodity agreements in the 1940s and 50s:
Theoretical underpinnings, operational implications and policy debate

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ABSTRACT

Between the 1940s and the 1960s, individual economists (e.g. N. Kaldor, R. Kahn, J. Galbraith, M. Ezekiel) and international organisations (e.g. the FAO, UN Economic and Social Council) promoted international agreements to stabilise commodity prices. Several plans were put forth in this context, ranging from the introduction of an international commodity-backed reserve currency to less ambitious projects, including buffer stocks and multilateral guaranteed purchase schemes managed by coalitions of exporting and importing countries. This paper explores the theoretical and operational underpinnings of these plans, focusing on early post-war proposals. In particular the paper investigates the modelling of expectations and on how international commodity agreements were designed to deal with speculation and with possible conflicts between producers and consumers. In pursuing this goal, the present paper extends Paesani and Rosselli (2014). The main conclusions emerging from our analysis can be summarised as follows. Early post-war studies of international commodity agreements were based on standard competitive partial equilibrium models and on the assumption of static price expectations leading to the emergence of cobweb effects. Many schemes were based on the adoption of pricing formulas designed to tame speculation and to overcome possible conflicts between consumers and producers. Research on the impact of international commodity agreements on the income of producers and consumers obtained mixed results.
Sraffa’s unpublished papers have attracted the attention of different scholars on the relationship between Marx’s and Sraffa’s economic theories. A central point is the role of the value of the net product and its distribution among capitalists and workers, which Sraffa intended to develop along Marxian lines. Sraffa establishes a bridge among the ‘macro’ conception of a given surplus to be divided between the different social classes and the ‘micro’ analysis of the prices of the different commodities by equalizing the value of the net product to the labour employed in its production. In this framework Sraffa’s macro analysis confirms Marx’s theory of surplus value, while Marx’s theory of “macro” value is a correct approximation in the ‘actual’ economy, but it is fully consistent in the standard system. In this framework Sraffa interpreted the vexed question of Marx’s tendency of the falling rate of profit. During the 1940s Sraffa strongly rejected Bortkiewicz’s critique of Marx’s theory of the falling rate of profit. When writing his notes, Sraffa believed that even in the ‘actual’ economic system the relation between aggregate income and aggregated capital does not vary when the distribution of income changes. However, the Standard system can be used to support Sraffa’s view on Marx’s law even when the assumption of a constant relationship in the ‘actual’ economy between income and capital is dropped. However the standard relation should be interpreted as a value (not only physical) relation between the rate of profit and the variable capital per unit of labour. More generally the Standard system is a theoretical construct in which capital goods have their value as “capital”. It is an “auxiliary construction”, as far as the “mechanism” of prices and the rate of profit is concerned, but it is a powerful tool from the theoretical point of view.
Abstract:
An aspect so far unnoticed of an 1890 article by Bortkiewicz (answering Edgeworth's criticisms of the second edition of Walras' Elements), an article prompted and wholeheartedly approved by Walras himself, suggests an answer to the question, how could Walras not realize for 25 years the rather obvious fact that a uniform rate of return on the supply price of capital goods required an endogenously determined composition of the endowment of capital goods and was therefore incompatible with his given vector of capital endowments, a fact he finally admits in the 4th edition. In that article Bortkiewicz interprets the extension from the production economy to the capitalization economy i.e. the consideration of production of new capital goods, as turning the endowments of capital goods, treated as given in the production economy, into endogenously determined. It is inferred that Walras before the fourth edition confused the rareté of the given endowments of capital goods with the rareté resulting from the production of new capital goods, and tended therefore to view the endowments of capital goods relevant for the determination of capital rentals as already somehow adjusted, confirming a speculation by Garegnani ((1962)2008). The change in the determination of the composition of the production of new capital goods in the 4th edition supports this interpretation.
Il problema della dinamica macroeconomica in Augusto Graziani

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Abstract

Gli anni che seguirono il secondo conflitto mondiale sono stati un periodo di intensi cambiamenti anche per la teoria economia. Da un lato l’affermarsi della rivoluzione keynesiana, dall’altro la nuova apertura in cui si venivano a trovare gli studiosi italiani determinarono una profonda trasformazione della scienza economica anche in Italia. Augusto Graziani è stato uno degli artefici di questo cambiamento.

Due erano le principali direzioni di cambiamento. La prima consisteva nel dare alla scienza economica un maggior carattere empirico. La seconda riguardava il passaggio dalla statica alla dinamica. E’ soprattutto su questo secondo indirizzo che Graziani diede negli anni Sessanta un importante contributo. Graziani focalizzò l’attenzione sul problema della dinamica all’interno della teoria dell’equilibrio economico generale, arrivando a formulare anche un abbozzo formale nel suo *Equilibrio generale ed equilibrio macroeconomico* (1965).

L’apporto di Graziani è interessante perché anticipa in chiave macroeconomica il filone della crescita endogena che poi esploderà negli anni Ottanta. Perché alcuni spunti teorici rilevanti siano maturati pienamente sono a decenni di distanza ed in un contesto teorico del tutto differente costituisce un interessante puzzle per la storia del pensiero economico. Inoltre, il modello di crescita endogena *in nuce* elaborato da Graziani ci aiuta a comprendere anche le radici teoriche della modellistica sulla crescita endogena che vanno ricercate in un solco di pensiero risalente a Von Neumann.
Il rigore scientifico di un maratoneta babilonese: Federico Caffè e il welfare state

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Università di Macerata

Il saggio riflette sul contributo teorico e metodologico di Federico Caffè soffermandosi in particolare sul suo In difesa del welfare state. Inizia richiamando quella che egli considerava la ragion d’essere dell’intervento pubblico e, a partire da questa, l’impossibilità, più volte sottolineata, di valutare l’operato dello stato sulla base di criteri di mercato. Sottolinea, tuttavia, che per Caffè l’obiettivo non era solo quello di ovviare ai costi sociali connessi con la discrepanza fra criteri privatistici e criteri collettivi di impiego delle risorse; ben più importante era che l’azione pubblica mettesse le persone in condizione di non essere emarginate dalla vita civile.

L’approccio delineato abbandonava la delimitazione disciplinare tipica della saggezza convenzionale per concepire l’economia come strettamente interdipendente con il contesto storico-sociale. Ne discendeva l’esigenza di indagare l’economia in modo sostanzialmente diverso. Basandosi sulla riflessione metodologica di S. Dow, il lavoro suggerisce che Caffè abbia seguito un metodo di indagine non assiomatico-deduttivo bensì, per usare il termine dell’economista scozzese, “babilonese”. Solo quando questo punto sia chiaro diventa possibile comprendere ad un tempo il rigore teorico di Caffè, il suo richiamo all’eclettismo e il suo rapporto difficile con alcune tematiche sraffiane.

Questo stesso approccio metodologico spiega il keynesismo di Caffè e la sua polemica, sin dall’immediato dopoguerra, non solo con la pretesa di una ‘deflazione benefica e risanatrice’ ma anche con la rinuncia all’impiego di strumenti non convenzionali come, per esempio, il protezionismo.

Il lavoro conclude distinguendo la sua visione di intellettuale da quella del ‘consigliere del principe’, ritenendo cruciale che siano le scelte politiche a dover tener conto delle opzioni economiche e non il contrario.

In conclusione ritengo che il lavoro possa offrire un prospettiva interessante rispetto al tema centrale del convegno.
Forster and Keynes on Personal Relationships. A preliminary inquiry into the relationships between Literature and Economics

Abstract

The paper is divided into four sections. In the first section, the personal relationship and great friendship between E.M. Forster (1877-1962) and J.M. Keynes (1883-1946) is recalled. Both were King’s men, first as students, then as fellows (JMK was, typically, instrumental in getting EMF his fellowship at King’s); both were members of the Apostles Society; and both belonged to Bloomsbury’s inner circle (although, as we shall see, they were, for different reasons, quite distinctive Bloomsberries). In the second section, Keynes’s “Early Beliefs” (1938) and Forster’s “What I Believe” (1939) are examined from a comparative point of view. Both essays are very well known - in “My Early Beliefs” there is Keynes’s famous definition of Forster as that “elusive colt of a dark horse” -, but (as far as I know) no study exists that has put them to a close comparative scrutiny. Since no text, even if authored by Forster or by Keynes, should be taken at its facial value, in the third section, some passages of Forster’s fiction and of Keynes’s economics are examined. The aim of this examination is to assess whether, and how, Keynes’s (in “My Early Beliefs”) and Forster’s (in “What I believe”) stated principles and ideas are actually, in their different and proper field (economics for Keynes, fiction for Forster), carried out and performed. Quite obviously, special attention is given to the notions of belief, custom, wealth, inequalities, uncertainty, reason, speech, persuasion, that are at the centre of both Forster’s fiction and Keynes’s economic theory. In the fourth and last section, some (preliminary and provisional) conclusions are drawn. The most important one is that, in spite of their belonging to quite different fields, literature and economics happen to share the same object and some methods of inquiry. Not surprisingly, this conclusion has to do with the fact that the two authors taken into account in the paper belong to the same and common Cambridge tradition.
Luxury and Wealth in Republican Thought

The paper examines the treatment of luxury and wealth in the writings of several key thinkers who worked in what is often called ‘republican’ tradition. Their admiration for Sparta and the austerity of the early Roman Republic, under the influence of Sallust, Livy, Plutarch and other ancient writers, meant that unnecessary wealth and, particularly, consumption over certain limited level, was regarded as pernicious extravagance that harms virtue and leads to corruption. The authors in question offer, however, important and interesting insights in the development of the distinction amongst necessities and luxury. The paper focuses on the most relevant thinkers, in early-sixteenth century Florence and in eighteenth century France. Machiavelli, who stated that men act either by necessity or by choice, strongly preferred the former, for hunger and poverty make men industrious (as laws make them good). Significantly more important is the contribution of Guicciardini, who was indeed the first to distinguish the necessary, (useful) and superfluous expenses (i.e. the decreasing scale of wants). Keen on the Spartan example, Guicciardini simultaneously wanted to expel the “disease” of wealth and luxury, suggesting measures like sumptuary laws and limitation of dowries. Montesquieu offers perhaps most interesting theoretical contribution, not only thoroughly analysing luxury and its effect, but even giving a mathematical formula for calculating luxury in relation to physical necessities. At the same time, he was very aware of the advent of commerce and wealth, and contrast between the moderns and the ancients. His contemporary Mably is one of the last old-fashioned, austere republicans, keen on promoting virtue, but conscious of how “the seeds of corruption become matured by the sunshine of prosperity”. Mably’s proposals about how to fight luxury are, nonetheless, of significant theoretical interest.
The circuit after financialisation

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Abstract.

The circuitist analysis focused on the role of banks as creators of money through the loan processes. In the era of financialisation (since circa 1980) banks and other financial institutions have increasingly engaged in provision of financial services and (more significantly) in securitisation and trade in financial assets. In Chapter 5 of his The Monetary Theory of Production, Augusto Graziani analysed the role of financial markets at the end of the monetary circuit, and in Chapter 7 explored the implications for monetary policy. In this paper we build on Graziani’s analysis in that book to explore the evolving activities of the financial sector and their implications for a circuitist analysis and for the role of the central bank.

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Abstract.

The object of my proposed paper is to review the conception of pricing in the works of Augusto Graziani and Hyman P. Minsky, who had both been influenced by the Wicksellian macroeconomic monetary perspective. The intention is to analyze the similarities between these two writers and to show how their views contrasted with other Post-Keynesian/Kaleckian approaches in the literature on price formation. The particular analytical framework that was adopted by these two major heterodox economists also leads to a certain perception of what impact public-sector deficit spending can have on aggregate price formation. This raises some crucial questions about the analytical appropriateness of the fiscal policy perspective of these towering intellectual thinkers from the broad Post-Keynesian tradition.
The movement of exchange is an essential activity of economics. Within the culture of capitalism, however, exchange exists in valences beyond the transfer of goods and services, or the animation of financial markets. Exchange, as activity and event, embodies freedom, self-interest and equality -- simultaneously a form of mutuality and individual self-actualization.

As this paper will propose, the contemporary cultural ethos of exchange is fruitfully contextualized within the analytical rupture inaugurating the Classical school of political economy. As will be suggested, the significance of the shift from Mercantilist theory and practice, for which exchange was the prime generator of wealth and profit, to the assertion of production as the source of all “true” wealth possesses a rich significance for economic thought and the origins of the culture of modern markets. As I will propose, the rejection of exchange as the prime mover of economic activity has implications for subsequent representations of exchange. The essential example of the post-mercantilist transformation of exchange is found, as I will suggest, in Adam Smith’s Wealth of Nations – in particular, the iconic chapter depicting self-love, along with butchers, bakers and brewers. Here, a new identity for exchange is traced, and, as I will demonstrate, forms a crucial substrate which secures and enables Smith’s characterization of self-interest – itself a defining moment in the emergence of the culture of capitalism.
Real wages in the business cycle: an unresolved conflict between theory and facts in mainstream macroeconomics*

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ABSTRACT

The focus of this paper is the recurring tension between mainstream macroeconomics and observed facts in connection with the difficult task of providing explanations of the business cycle consistent both with the traditional theory of income distribution and with the empirical evidence concerning the co-movements of real wages and employment over the cycle. The attempts to reconcile facts and theory have led to the continuous introduction of specific and arguably ad hoc hypotheses, in contrast with the search for greater theoretical rigour claimed by the various streams of macroeconomic modelling subsequent to the neo-classical synthesis. In addition, the specific assumptions introduced in the models, or their implications, are in turn often contradicted or, at best, not confirmed by subsequent empirical research. It is suggested in the conclusions that the difficulty of keeping together in a simple and consistent framework theory and facts reflects the flawed theoretical foundations of mainstream theory.

JEL: E24; E32; E12

Keywords: real wages in the business cycle; macroeconomic models
Graziani and Kalecki in the Theory of the Monetary Circuit

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Abstract.

Augusto Graziani's theory of the monetary circuit came from his profound engagement with the theories of Marx and Keynes. Michał Kalecki's monetary theory came from his efforts to explain the business cycle. Despite differences over the sources of bank credit, both came to the same conclusion, namely that the circulation of money in a capitalist economy is driven by capitalists' production and expenditure decisions, rather than central bank operations. This approach is of especial importance now when central banks are widely supposed to control the business cycle.
La geografia economica marxista: una ricostruzione della letteratura
Giovanna Vertova1

Abstract:
Il paper si propone come un’introduzione ragionata ad uno dei dibattiti più vivaci e significativi del marxismo contemporaneo. A partire da una rilettura originale del materialismo storico marxiano, la geografia economica marxista fornisce una ricostruzione teoricamente agguerrita e illuminante delle configurazioni e dei rimescolamenti spaziali del capitalismo. Nel modo di produzione capitalistico il rapporto centrale e conflittuale capitale-lavoro si “traduce” spazialmente nel rapporto centro-periferia, estendendosi a tutte le scale geografiche, da quella internazionale (primo vs. terzo mondo) a quella locale (città vs. campagna). Lo spazio è una costruzione sociale, non un dato esogeno, e svolge un ruolo attivo nella generazione dei profitti e, dunque, nella dinamica capitalistica. Da una parte rappresenta una soluzione alle crisi del capitalismo; dall’altra diviene, con il passar del tempo, una barriera per l’estrazione di plusvalore. Per questo il capitale deve incessantemente modellare e rimodellare lo spazio, come un serpente deve cambiare pelle per sopravvivere.

La geografia economica di ispirazione marxista non si limita ad un discorso astratto sulle categorie, ma si rivela anche una valida bussola per comprendere l’attuale fase di accumulazione capitalistica, impropriamente ma comunemente definita “globalizzazione”. Le novità di questa nuova fase sono molte e mi limito, qui, a quelle più interessanti per la loro immediata ricaduta sull’odierna configurazione spaziale del “capitale globale”: (i) una liberalizzazione dei movimenti di capitali ha permesso al capitale di disperdersi nel globo alla ricerca delle migliori opportunità di profitto. Ciò vale sia per il capitale produttivo che per quello finanziario; (ii) l’entrata in scena di nuovi competitori mondiali (si pensi alla Cina, all’India e ai tutti i paesi dell’ex socialismo reale) ha complicato notevolmente il quadro geopolitico internazionale, non più interpretabile con la semplice dicotomia “centro-periferia”; (iii) inoltre, l’entrata in scena di nuovi competitori mondiali ha prodotto un aumento dell’esercito industriale di riserva e un sostanziale raddoppio della forza-lavoro mondiale; (iv) il ruolo della stato-nazione è mutato radicalmente. Le sue funzioni si concentrano oggi nella ricerca della competitività della “azienda-paese”. Tutte queste novità producono una nuova configurazione spaziale del capitalismo che, a sua volta, produce nuove differenze spaziali.

Questo paper si propone di presentare i concetti chiave della geografia economica marxista, seguendo una evoluzione cronologica, poiché essa nasce in un determinato contesto storico e, fin dall’inizio, si propone di coniugare l’analisi accademica con la pratica politica.

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Limits of Rationality or In the Search of the Archimedean Point of Support

Liudmyla Vozna
Independent researcher

When we observe the discussions about workability of the rational choice theory, in the mind the famous exclamation of Archimedes appears: “Give me a place to stand on, and I will move the Earth!” It seems that some ardent followers of rational choice theory are full of the wish to find this miraculous point of support and, at last, to realize the great Archimedean “project”. But their opponents are full of realistic feeling and assert the absence of such a point. Is it Archimedes’ fault? Or, in other words, is it fault of the “fathers” of neoclassical economics? If to continue analogies, it seems that both parties of discussion forget that the main in the Archimedes’ invention is not the shifting of the Earth but the law of lever, which is absolutely valid.

Economic choice must be presented as a specific cloud (a set) of choices. The orthodox partisans of the rationality tend to contract this set into a point. It can be the market equilibrium point, the point of optimal consumer choice, the point of the optimal choice for a producer, Pareto optimality, the Nash equilibrium etc. Some opponents of the pure rationality inflate the cloud of choices to the extent of complete uncertainty. However, both cases – the case of absolute rationality as well as the case of absolute irrationality – are in the correspondence with the extremely non-equilibrium states of an economic system. In the paper these two types of the extremely non-equilibrium states are regarded from the synergetic point of view and compared with two types of disorder in a system. One of the disorder’s types is a chaotic state in which every element of a system acts independently. In another situation we have a homeostatic, frozen state, which is characterized by complete homogeneity and where all fluctuations are suppressed. So the real choice of economic actors must be flexibly located between these two states of disorder.
Though largely overlooked by neoclassical economists, Keynes' suggestion that capitalists had a "finance motive" for holding money idle represented an important insight. However, because he carried out his analysis using value added categories - what Marx termed the net product - he was unable to develop the implications of his idea.

The key to the understanding of the finance motive and its importance is the circuit of capital, absent in *The General Theory*. I first present the simple form of the circuit of capital as found in *Capital* Volume I. After doing so I elaborate the simple circuit to include credit. This elaboration demonstrates the necessity of treating the circulation of capital in the gross product framework, because it subsumes both value and material reproduction.

Having developed the analytical framework I consider circuitist monetary theory, especially with regard to the issue of whether money is endogenous with respect to the level of output. Analysis of this issue leads to the conclusion that endogeneity is essential to a theoretically consistent treatment of the circuit of capital. Endogeneity immediately leads to consideration of the determinants of absolute prices and the nature of inflation.

JEL categories: E50, E51
Whither Keynesian uncertainty?

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Abstract

This paper focuses on Keynes’s understanding of individual decision-making under uncertainty and tries to address a question left mostly unexplained in the critical literature. On re-reading Keynes after the recent surge of interest induced by the financial crisis, a number of scholars have placed emphasis on well-known excerpts from the General Theory dealing with the “state of long-term expectations.” Keynes evidenced that future events conditioning economic activity in general, and investment in particular, “can only be forecasted with more or less confidence,” and that “the state of confidence, as they term it, is a matter to which practical men always pay the closest and most anxious attention,” while economic theory does not. In these instances, Keynes argued, people may fall back on “conventions,” which give them assurance that they are doing the right thing. As a result, “to behave in a manner which saves our faces as rational, economic men … we have devised for the purpose a variety of techniques.” But Keynes’s main message is that under uncertainty “[a]ll these pretty, polite techniques, made for a well-panelled Board Room and a nicely regulated market, are liable to collapse.” For instance, conventional behaviour easily turns into herd behaviour, and financial markets are pervaded by alternating currents of euphoria and panic. So a question remains: how should Keynesian agents behave in markets continuously on the brink to fail? Are there, rephrasing Keynes, “impolite” techniques to be used under uncertainty or must we end up admitting that “we simply do not know,” and behave in a conventionally understood fashion? The paper offers a reading of Keynes suggesting that the thread going from Keynes’s Treatise on Probability to the General Theory and its defence provides a positive analysis of decision-making under uncertainty, and argues that placing emphasis on this positive analysis simply means adhering to Keynes’s long-standing commitment to interpret reasonable judgement in a (surely unconventional) probabilistic set-up.