

Cambridge University Press

978-0-521-29543-7 - Growth and Income Distribution: Essays in Economic Theory

Luigi L. Pasinetti

Frontmatter

[More information](#)

Growth and Income Distribution  
*Essays in Economic Theory*

LUIGI L. PASINETTI

CAMBRIDGE UNIVERSITY PRESS

CAMBRIDGE

LONDON NEW YORK NEW ROCHELLE

MELBOURNE SYDNEY

Cambridge University Press

978-0-521-29543-7 - Growth and Income Distribution: Essays in Economic Theory

Luigi L. Pasinetti

Frontmatter

[More information](#)

CAMBRIDGE UNIVERSITY PRESS

Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore,  
São Paulo, Delhi, Dubai, Tokyo, Mexico City

Cambridge University Press

The Edinburgh Building, Cambridge CB2 8RU, UK

Published in the United States of America by Cambridge University Press, New York

[www.cambridge.org](http://www.cambridge.org)

Information on this title: [www.cambridge.org/9780521295437](http://www.cambridge.org/9780521295437)

© Cambridge University Press 1974

This publication is in copyright. Subject to statutory exception  
and to the provisions of relevant collective licensing agreements,  
no reproduction of any part may take place without the written  
permission of Cambridge University Press.

First published 1974

Reprinted 1975, 1978

First paperback edition 1979

Reprinted 1980

Re-issued 2010

*A catalogue record for this publication is available from the British Library*

*Library of Congress Catalogue Card Number: 74-76579*

ISBN 978-0-521-20474-3 Hardback

ISBN 978-0-521-29543-7 Paperback

Cambridge University Press has no responsibility for the persistence or  
accuracy of URLs for external or third-party Internet Web sites referred to in  
this publication, and does not guarantee that any content on such Web sites is,  
or will remain, accurate or appropriate.

Cambridge University Press

978-0-521-29543-7 - Growth and Income Distribution: Essays in Economic Theory

Luigi L. Pasinetti

Frontmatter

[More information](#)

# Contents

Preface	ix
<b>I A mathematical formulation of the Ricardian system</b>	<b>1</b>
1. <i>Theory of value</i>	1
2. <i>Theory of distribution</i>	4
3. <i>Theory of economic growth</i>	6
4. <i>'Natural' equilibrium in a two-commodity system</i>	6
5. <i>Some characteristics of the Ricardian system</i>	10
6. <i>The market solutions and the attainment of the 'natural' equilibrium</i>	11
7. <i>The equilibrium of the stationary state</i>	13
8. <i>The process of economic growth</i>	15
9. <i>Multi-commodity production</i>	18
10. <i>Concluding remarks</i>	21
<i>Appendix – Existence and uniqueness of stable solutions</i>	22
<b>II The economics of effective demand</b>	<b>29</b>
1. <i>Malthus on effective demand</i>	29
2. <i>The principle of effective demand</i>	31
3. <i>Theories of under-consumption (and over-production)</i>	33
4. <i>J. M. Keynes' 'general theory' of employment</i>	36
5. <i>The principle of effective demand in a different context</i>	41
6. <i>Ricardian features of Keynes' analysis</i>	42
7. <i>Anti-Keynesian features of some 'Keynesian' literature</i>	45

Cambridge University Press

978-0-521-29543-7 - Growth and Income Distribution: Essays in Economic Theory

Luigi L. Pasinetti

Frontmatter

[More information](#)

<i>Growth and income distribution</i>	
8. <i>The principle of acceleration</i>	48
9. <i>Final remarks</i>	50
<i>Appendix – The ‘lagged’ multiplier</i>	51
III Cyclical fluctuations and economic growth	54
1. <i>The model</i>	55
2. <i>A graphical device</i>	56
3. <i>The dynamics of income</i>	59
4. <i>The dynamics of the stock of capital</i>	63
5. <i>Interrelations between the dynamics of income and the dynamics of capital</i>	63
6. <i>The various interpretations of the endogenous dynamics of an economic system</i>	65
7. <i>Possibility of a steady growth</i>	67
8. <i>The difficulties of providing a theory which may explain both cycles and growth</i>	69
9. <i>A more flexible use of macro-economic models</i>	71
10. <i>A reinterpretation of the complex dynamics of a modern economic system</i>	72
<i>Mathematical appendix</i>	75
IV From Classical to Keynesian economic dynamics	86
1. <i>Pre-Malthusian views on population</i>	86
2. <i>Malthus’ principle of population</i>	88
3. <i>The ‘law of diminishing returns’</i>	89
4. <i>Population growth and technical progress</i>	91
5. <i>Long-run equilibrium conditions – Domar’s contribution</i>	93
6. <i>The ‘natural’ rate of growth – Harrod’s contribution</i>	95
7. <i>New answer to an old Ricardian problem</i>	97
8. <i>Kaldor’s theory of income distribution</i>	99
9. <i>Concluding remarks</i>	101
V Rate of profit and income distribution in relation to the rate of economic growth	103
1. <i>A post-Keynesian theory of income distribution and of the rate of profit</i>	103

Cambridge University Press

978-0-521-29543-7 - Growth and Income Distribution: Essays in Economic Theory

Luigi L. Pasinetti

Frontmatter

[More information](#)*Contents*

2. <i>A correction</i>	106
3. <i>Reformulating the model</i>	107
4. <i>Rate and share of profits in relation to the rate of growth</i>	109
5. <i>A fundamental relation between profits and savings</i>	110
6. <i>Implications</i>	112
7. <i>The conditions of stability</i>	113
8. <i>The case of a socialist system</i>	116
9. <i>Models and reality</i>	118
VI <i>The rate of profit in an expanding economy</i>	121
1. <i>Harrod–Domar’s dilemma</i>	121
2. <i>The ‘Cambridge equation’</i>	121
3. <i>The marginal productivity alternative</i>	122
4. <i>Extreme assumptions and general results</i>	124
5. <i>A first approximation synthesis</i>	126
6. <i>Irrelevance of the workers’ propensity to save</i>	127
7. <i>A marginal productivity escape route</i>	129
8. <i>The workers’ savings required for the disappearance of the capitalists</i>	132
9. <i>Capital–output ratio and rate of profit</i>	132
10. <i>The case of a highly flexible capital–output ratio</i>	134
11. <i>Conclusions for the general case</i>	138
12. <i>Rate of interest and rate of profit</i>	139
13. <i>Many groups of savers</i>	141
14. <i>Further extensions</i>	142
15. <i>A socialist economy</i>	143
16. <i>The rate of profit in an expanding economy</i>	144
<i>References</i>	145
Index	147

Cambridge University Press

978-0-521-29543-7 - Growth and Income Distribution: Essays in Economic Theory

Luigi L. Pasinetti

Frontmatter

[More information](#)

## Preface

The essays collected in this book (with the exception of Essay vi) were conceived in the years 1958–62, in a period when I moved, in quick succession, from the University of Cambridge, England, to Harvard University in the U.S.A., to Nuffield College, Oxford, and then back to Cambridge again. Essays i, iii, and v have been published already, and are here reprinted by kind permission of the *Review of Economic Studies*, the *Oxford Economic Papers* and *l'industria*. I am reproducing them without alterations, except for obvious errors and misprints and a few very minor excisions – mainly footnotes, to avoid repetition. Essays ii, iv and vi appear here for the first time. Essays ii and iv contain material which I have used in some of my lectures at the University of Cambridge, as many of my pupils will no doubt recognize. Essay vi on the other hand is much more recent, and is in a sense quite distinct from all the others; it was mainly written during my stay as Wesley Clair Mitchell Research Professor of Economics at Columbia University, New York, in 1971–72.

All the essays have in common the same basic conception of the working of the economic system and are therefore complementary to one another. I have sandwiched Essays ii and iv in between the previously published essays to provide the missing links – an exploration of the deep Classical, and particularly Ricardian, foundations of Keynesian and post-Keynesian economic theory. As is shown in Essay ii, Keynes' theory of effective demand, which has remained so impervious to reconciliation with marginal economic theory, raises almost no problem when directly inserted into the earlier discussions of the Classical economists. Similarly, as is shown in Essay iv, the post-Keynesian theories of economic growth and income distribution, which have required so many artificial assumptions in the efforts to reconcile them with marginal productivity theory, encounter almost no difficulty when directly grafted on to Classical economic dynamics. I have appended

Cambridge University Press

978-0-521-29543-7 - Growth and Income Distribution: Essays in Economic Theory

Luigi L. Pasinetti

Frontmatter

[More information](#)*Growth and income distribution*

Essay VI to answer a series of questions which have arisen from a theorem contained in Essay V. After all the discussions, a final conclusion emerges on the basic forces determining the rate of profit in the process of economic growth.

I have tried, in the whole book, to insist on the positive and constructive aspects of Classical and post-Keynesian theories. Polemics has been left aside and criticism kept to a minimum. I hope I have succeeded in giving unity and homogeneity to the whole, and in providing a coherent picture of so much of the Keynesian and post-Keynesian economic thinking that has recently originated in Cambridge.

I am glad to take this opportunity to express my deep gratitude to that remarkable group of thinkers – Richard Kahn, Nicholas Kaldor, Joan Robinson and Piero Sraffa – whom I had the rare fortune of meeting, discussing with so often, and then being associated with, in Cambridge, which has been to me the most stimulating place I could possibly imagine for progressive thought in economic theory. To the reader of the present essays it will appear only inadequately how much I owe to them. The warning, therefore, becomes more than usually necessary that the conception of Keynesian economic theory that emerges from the following pages must not be taken as necessarily expressing their views. Though inspired by them, I alone must take full responsibility.

My thanks also go to all teachers, colleagues and pupils with whom I had countless discussions. It would take too long to list them all. But I should like to thank particularly: Richard Goodwin, James Duesenberry, Franco Modigliani, James Meade and Robin Marris.

I am grateful for financial support to the institutions where I have been working, but especially to: King's College, Cambridge; Nuffield College, Oxford; and the Department of Economics of Columbia University, New York.

L.L.P.

*King's College, Cambridge*  
*December 1973*