# Contents

### Acknowledgements

<table>
<thead>
<tr>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ix</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1 Introduction: A Non-linear Discourse</th>
<th>1</th>
</tr>
</thead>
</table>

## Part I  The Background

<table>
<thead>
<tr>
<th>2 The Foundations: Classicals and Marginalists</th>
<th>13</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Introduction</td>
<td>13</td>
</tr>
<tr>
<td>2.2 The Classical Approach</td>
<td>14</td>
</tr>
<tr>
<td>2.3 Self-Interest and Felicific Calculus: Smith versus Bentham</td>
<td>21</td>
</tr>
<tr>
<td>2.4 Karl Marx</td>
<td>22</td>
</tr>
<tr>
<td>2.5 The Marginalist Approach</td>
<td>24</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3 The Immediate Precursors</th>
<th>31</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1 Introduction</td>
<td>31</td>
</tr>
<tr>
<td>3.2 Wicksell and the Swedish School</td>
<td>32</td>
</tr>
<tr>
<td>3.3 Veblen and Institutionalism</td>
<td>35</td>
</tr>
<tr>
<td>3.4 Weber: The Method, between Theory and History</td>
<td>37</td>
</tr>
<tr>
<td>3.5 Schumpeter: From Statics to Dynamics</td>
<td>41</td>
</tr>
<tr>
<td>3.6 Keynes on Probability and Uncertainty</td>
<td>48</td>
</tr>
<tr>
<td>3.7 Keynes on Finance and Employment</td>
<td>52</td>
</tr>
</tbody>
</table>

## Part II  The Giants of the Short Century

<table>
<thead>
<tr>
<th>4 The Founder of Neo-liberalism: Friedrich von Hayek</th>
<th>59</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1 A General Portrait</td>
<td>59</td>
</tr>
<tr>
<td>4.2 The Formative Years and Career</td>
<td>63</td>
</tr>
<tr>
<td>4.3 Theory of the Trade Cycle and Theory of Capital</td>
<td>66</td>
</tr>
<tr>
<td>4.4 Theory of Capital and the Debate with Kaldor</td>
<td>71</td>
</tr>
<tr>
<td>4.5 Spontaneous Order and the Market as a Mechanism of Knowledge Diffusion</td>
<td>76</td>
</tr>
<tr>
<td>4.6 Methodological Individualism, Political Individualism and Economic and Political Liberalism</td>
<td>78</td>
</tr>
<tr>
<td>4.7 The Denationalization of Money</td>
<td>83</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>5 The Revolutionary: Piero Sraffa</th>
<th>88</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1 Early Contributions: Money and Banking</td>
<td>88</td>
</tr>
</tbody>
</table>
5.2 Friendship with Gramsci 91
5.3 Criticism of Marshallian Theory 93
5.4 Imperfect Competition and the Critique of the Representative Firm 95
5.5 Cambridge: Wittgenstein and Keynes 97
5.6 The Critical Edition of Ricardo’s Writings 100
5.7 Production of Commodities by Means of Commodities 102
5.8 Critique of the Marginalist Approach 106
Appendix 108

Part III  The Disgregation of the Mainstream 111
6  The New Microeconomics: General Equilibrium and Expected Utilities, Theory of Industrial Organization 113
   6.1 From One Shore of the Atlantic to the Other 113
   6.2 The New Foundations: Expected Utility Theory 115
   6.3 The Traditional Foundations: Walrasian General Equilibrium 119
   6.4 Samuelson’s Marshallian–Walrasian Synthesis 126
   6.5 The Marshallian Microeconomics of the Chicago School: The Imperialism of Economics 129
   6.6 The New Theories of the Firm 133
   6.7 Game Theory and Industrial Organization Theory 139
   6.8 Other Micro-applications 144
7  The Macroeconomics of the Neoclassical Synthesis 146
   7.1 Macroeconomic Theory after Keynes 146
   7.2 The Neoclassical Synthesis 147
   7.3 The Phillips Curve 155
   7.4 Marshallian Varieties of the Neoclassical Synthesis 157
   7.5 Growth Theory 159
   7.6 Theories of Economic Development 164
       Appendix 171
8  The Myth of the Invisible Hand: Neo-liberal Streams 177
   8.1 The Origins of the Invisible Hand 177
   8.2 Ordoliberalism: From Eucken and Röpke to Merkel 181
   8.3 From the ‘Old’ to the ‘New’ Austrian School 186
   8.4 Hicks’s Austrian Theory 192
   8.5 Friedman and the Chicago School 196
   8.6 Rational Expectations and Supply-Side Economics 203
   8.7 Public Choice 208
   8.8 Mont Pèlerin Society and the Web of Think Tanks 212
   8.9 The Washington Consensus and Expansionary Austerity 215
9  Applied Economics and Econometrics 218
   9.1 Theoretical Backgrounds of Applied Economics 218
   9.2 Input–Output Tables 220
   9.3 National Accounting 222
   9.4 The Naissance of Econometrics 226
   9.5 The Developments of Econometrics 228
Contents

9.6 The New Descriptive Statistics: The Search for Indicators 230
9.7 Market Regulation, Market Creation and Auctions 233
9.8 Between Theory and Applied Economics: The Economics of Energy Sources 238
9.9 The Environment and the Economy 241

Part IV The Weakening of the Paradigm 245

10 Behavioural Economics and Bounded Rationality 247
10.1 Rejecting the Notion of Homo Oeconomicus 247
10.2 Rationality and Behavioural Paradoxes: Behavioural Economics 250
10.3 Experimental Economics 252
10.4 Herbert Simon 257
10.5 Kahneman and Tversky’s Prospect Theory 260

11 From Efficient Financial Markets to the Theory of Crises 265
11.1 Introduction 265
11.2 Monetarism 266
11.3 Economic Policy: From Keynesianism to Monetarism 269
11.4 The Theory of Efficient Financial Markets: From Modigliani–Miller to Fama 273
11.5 Financial Markets and Institutions 277
11.6 The Keynesian Theory of Financial Markets: Hyman Minsky 279
11.7 Money Manager Capitalism 283

Part V Is a New Paradigm Possible? 287

12 Post-Keynesian Macroeconomics 289
12.1 The Cambridge Tradition 289
12.2 The New Cambridge School 292
12.3 Michal Kalecki 294
12.4 Nicholas Kaldor 296
12.5 The Debate on Interpretation of Keynes 298
12.6 The Debate on the Theory of Capital and Critique of the Marginalist Theory of Value 303
12.7 The Cambridge Theory of Distribution 308
12.8 The Sraffian Schools 310
12.9 Towards a Keynesian–Sraffian Synthesis? 316

13 Marxism, Evolutionism, Institutionalism 319
13.1 Introduction 319
13.2 Criticism of the Labour Theory of Value and Developments in Marxism 321
13.3 Analyses of Change in the Economic and Social Structure: Polanyi and Galbraith 326
13.4 Neo-institutionalism 331
13.5 Evolutionism and Institutionalism 335
13.6 Evolutionism, Institutionalism and Analysis of Technical Change 340
viii Contents

13.7 Development Economics and Interactions with Cultural Evolution 343
13.8 Competition among Institutions 345

14 Ethics and the Problem of Power 349

14.1 Introduction 349
14.2 Utilitarianism and the Ethics of Consequences 352
14.3 Income Inequalities as an Ethical Issue 360
14.4 Welfare Economics 363
14.5 Equality of What? The Capabilities 367
14.6 Conservation, Revolution or Reforms 371
14.7 ‘The Economists’ Ethics 374

References 377
Index 419