In 2005, Luigi Pasinetti was asked by his friend and colleague Pier Paolo Varri how he would like his seventy-fifth birthday to be celebrated. Pasinetti immediately replied: ‘let us discuss my new book!’ The book was, of course, *Keynes and the Cambridge Keynesians*, which was almost finished at that time. One of the most original and provocative parts was the ‘Postlude: Fighting for Independence’ of Book Two (The Cambridge School of Keynesian Economics), where he portrays what he considers the main features of the classical-Keynesian school, offering a list of nine theoretical and methodological characteristics, qualifying and unifying (to some extent, at least) the economists associated with it (Pasinetti, 2007, pp. 217–237). When, about a couple of years ago, John E. Woods (a student of Luigi Pasinetti at King’s College in the late 1960s) and Philip Good (economics editor of Cambridge University Press) launched the idea of a collection of essays discussing Pasinetti’s ‘nine characteristics’, we felt it certainly an appropriate, though a somewhat unconventional, way to celebrate Pasinetti’s career as an economist.

Needless to say, we quickly and enthusiastically accepted their proposal to take over the project. However, our enthusiasm was to be short-lived. In a few days, a sense of anxiety took hold as we began to realise the size of the task before us. The exceptional personality of Pasinetti and his relentless and uncompromising eagerness to discuss and refine his ideas (and, even more, others’ interpretations of them) caused us to question our original decision; possibly more frightening was the task of selecting just a few from among the many outstanding economists and scholars whose intellectual paths crossed with Pasinetti’s, each of them certainly deserving of joining this collective endeavour and give her/his comments on one (or more) of his nine

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1 At the time, Varri was the director of the Institute of Economic Theory and Quantitative Methods at the Catholic University of Milan.
characteristics. It is thanks to Woods and Good’s support that we became convinced not to abandon the project but to proceed with it.

Actually, the very reason that finally prompted us to persist in this endeavour and eventually led us to conceive this book as it now stands was not to celebrate Pasinetti’s work and ideas (an effort that, though certainly well deserved, he probably would not appreciate much); rather, it was the awareness that such a book could be a valuable opportunity to put to the test and eventually develop Pasinetti’s insights into the nature of the Cambridge Keynesian school and assess their ability to rescue present-day economics from its major flaws.

Indeed, Pasinetti has offered wide-ranging contributions to the development of a Keynesian theory of production, growth, and income distribution. On the one hand, his compelling critique of neoclassical theory and, on the other hand, his multi-sectoral framework for the analysis of structural dynamics can be counted among the most important achievements in the field of the classical and post-Keynesian theory. From his earliest publications, Pasinetti has consistently aimed to revive the methodology of classical political economy and integrate it with Keynesian economics to show how a classical-Keynesian approach, comprising the best of the two, would be better suited to explain the long-term dynamics of capitalist systems.

In his (2007) book, Pasinetti had discussed at length if a Cambridge school of ‘political economy’ exists. Drawing inspiration from both John Maynard Keynes and Piero Sraffa, though moulded in different ways, this school has been pursuing a long-standing and ambitious research programme that he sees as the main competing paradigm to mainstream economics, providing a comprehensive analytical framework into which most non-mainstream schools of thought can be inserted and give their specific contribution.

The nine building blocks presented by Pasinetti in order to define the main methodological characteristic features of the classical-Keynesian school are the following:

(1) Reality (and not simply abstract rationality) as the starting point of economic theory
(2) Economic logic with internal consistency (and not only formal rigour)
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(3) Malthus and the Classics (not Walras and the Marginalists) as the major inspiring source in the history of economic thought
(4) Non-ergodic (in place of stationary, timeless) economic systems
(5) Causality vs. interdependence
(6) Macroeconomics before microeconomics
(7) Disequilibrium and instability (not equilibrium) as the normal state of the industrial economies
(8) Necessity of finding an appropriate analytical framework for dealing with technical change and economic growth
(9) A strong, deeply felt social concern

The more we meditate on them, the more we are convinced that these characteristics provide a broad methodological framework that deserves further attention from economists and historians of economic thought.

Actually, the history of the post-Keynesian approach at large (comprising both the so-called American and the European schools in that tradition) is more a story of divisions and discussions than one of agreement and research based on a common understanding. The post-Keynesian approach has often been animated by deep analytical and methodological quarrels and by growing distinctions between specific approaches, schools, and lines of research. This lack of unity, and sometimes even dialogue, is still an open question in the literature on the history of post-Keynesian economics and, together with other external factors, may help explain its failure to achieve a wider consensus among the economics profession. In the late 1960s and early 1970s, post-Keynesian economics was at its height. The cultural milieu of Cambridge and other research centres encouraged radical and unconventional thinking that seemed to fit perfectly with the vivid political atmosphere of the time; a wealth of different ideas and intuitions were opening new research fields whose development would require well-focused research groups and great commitment; the notable analytical successes that the school secured in theoretical battles against the marginalist approach and the Neoclassical Synthesis reinforced a sense of self-confidence; the expectation that the establishment of a new post-Keynesian paradigm was at hand boosted each school’s efforts in pursuing their specific goals; and last, but not least, the bold characters of the most leading figures (Pasinetti included), each focused on the development of his own specific approach, diverted attention from research into the common ground.
between them. All of this certainly played a role in enhancing internal competition and distancing the different stars (and their planetary systems) within the post-Keynesian galaxy. Unfortunately, this happened at a time when the whole and variegated Keynesian universe (‘bastard’ Keynesians first of all!) was put under the massive attack launched by Milton Friedman and completed by Robert Lucas. In a very few years, monetarism and new classical macroeconomics conquered most universities and research centres around the world. Keynesian economists (whatever school they felt to belong to) were gradually marginalised from most academic and economic policy circles. A twenty-year kingdom was established, so to speak, ruled by rational expectations, the efficient market hypothesis, and the policy ineffectiveness proposition: at the dawn of the new century, this eventually evolved into a New Consensus Macroeconomics, merging the new classical DSGE-type of models with some specific hypotheses on the working of actual markets and producing some ‘Keynesian’ results in the realm of economic policy.

Post-Keynesian macroeconomics never faded away: indeed, various centres and individual economists are still operating, pursuing original, relevant research and publishing in journals within the post-Keynesian tradition. Moreover, in the last decade, they have been able to achieve a broader audience, particularly among young researchers. Notably, since the 2008 crisis, there has been a growing dissatisfaction with New Consensus Macroeconomics, specifically with its inability to explain the working of actual capitalist economies, their interaction with financial markets, and their structural tendency to produce mass unemployment and income inequality. On the whole, the post-Keynesian tradition and its history have proved to be still alive and relevant to present-day debates.

Thus, Pasinetti’s nine characteristics provide the opportunity to review the history of that tradition and try to discover – or, most likely,
to rediscover – some common ground between different approaches, which have individual merits on their own but could largely reinforce each other when evaluated within a more comprehensive framework.

Despite Pasinetti’s firm commitment to the classical and post-Keynesian research programme, he has always been a reference point, in dialogue with a much wider group of economists. A cursory check on Scopus suffices to show that Pasinetti’s works are constantly quoted by both heterodox and orthodox scholars. On the whole, we think that this critical and forward-looking assessment of Pasinetti’s interpretation of the classical-Keynesian school will not only attract the attention of those economists already close to classical and post-Keynesian economics but will also offer key insights to the wider group of heterodox economists, who are looking for novel methodological perspectives in which their original, potentially path-breaking, research may find its place. Also, mainstream economists will find that this book provides clear terms of comparison with their own approaches, enabling them to have a richer understanding of the classical-Keynesian school.

Furthermore, Pasinetti’s nine characteristics offer a broad basis for dialogue and discussion between open-minded economists who are willing to seriously take into consideration the heavy shocks and strains that financial crisis, technical change, and many urgent problems such as rising unemployment, growing inequality, and climate change are posing to modern economic thought. We believe that these nine characteristics may show new ways of thinking about economics and become a source of inspiration to young scholars willing to attain a better understanding of present-day market economies and devise new approaches to economic policy. It is mainly in relation to their ability to open new frontiers of economic research or shed new light on current economic research that Pasinetti’s nine characteristics should be valued.

Maria Cristina Marcuzzo (Chapter 1) deals with ‘Reality (and Not Simply Abstract Rationality) as the starting point of economic theory’ and points out that in Pasinetti’s mind, the former principle is meant to discard one assumption in particular: the ‘purely imaginary world of rationally behaving individuals’. Marcuzzo focuses especially on the notion of rational behaviour under conditions of uncertainty and imperfect knowledge as developed by Keynes and Richard Kahn. Contrary to Sraffa, who radically rejected the Marshallian approach,
Keynes and Kahn did not completely remove the idea of marginal calculation but retained and considerably developed Alfred Marshall’s own ideas and insights into the importance of experience, customs, habits, and expectations in business decision-making. In this line of thought, business decisions are not the result of a perfectly rational ex-ante calculation of marginal costs and revenues, aimed at maximising profit and utility; rather, they emerge from a process of trial and error, where reasonableness rather than perfect rationality is the guiding principle. The author thus confutes the nihilistic and quasi-irrationalistic interpretation sometimes given to Keynes’s animal spirits and points out how, in Kahn and Keynes, individuals make constrained choices being divided by ‘best guesses’ and uncertainty, first- and second-degree opinions, which, on balance, lead them to maintain their previous choices or change them in order to improve their position. Optimality and maximisation are thus ruled out from the realm of business decision making.

Neri Salvadori and Rodolfo Signorino, in their chapter ‘Economic Logic with Internal Consistency, and Not Only Formal Rigour’ (Chapter 2), highlight the interesting distinction between ‘internal consistency’ and ‘formal rigour’. Without going into a definition of these terms here, we can immediately perceive the difference between them by a simple comparison of two books, both outstanding in economic theory: Gérard Debreu’s *Theory of Value* and Sraffa’s *Production of Commodities by Means of Commodities*. Beyond the different approaches and contents, these books speak two different languages. Debreu follows the language of ‘formal rigour’: starting from a set of axioms, the scientific nature of this analysis lies in the correctness with which the different propositions are progressively obtained. Sraffa follows a line of ‘internal consistency’. The level of abstraction of his analysis is less marked: he starts from a numerical example of a primitive society and gradually extends his inquiry to a society where a surplus is realized and distributed between capitalists and workers, etc. Every ‘proposition’ is deduced following a logical procedure but according to a different method. The difference is not so much in the fact that Sraffa makes little use of mathematics. His method is well summarised in a key sentence found in Sraffa’s papers and quoted by Salvadori and Signorino: ‘But it is not enough that the conclusions of the theory are confirmed by observation: it is equally important that the path by which they are arrived at is the same both in
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theory and in reality’ (D1/45, p. 4 recto, Sraffa’s emphasis). The ‘consistency’ of the analytical process is thus ‘internal’ to the phenomena analysed, that is, strictly connected with the object of the inquiry.

Chapter 3, ‘Malthus and the Classics (Not Walras and the Marginalists) as the Major Inspiring Source in the History of Economic Thought’, is written by Heinz Kurz. The reference to the ‘Classics’ and the principle of effective demand are two elements considered fundamental for the Cambridge school by Pasinetti. Classical economists focused their attention on the phenomenon of production regarded as a circular process. The presence of the same set of commodities among both inputs and outputs allows them to ascertain the emergence of a social surplus, which must be divided between the social classes, according to forces that are regulated by a mix of technical and institutional elements. This was, in fact, the realm of classical political economy worked out by Adam Smith, David Ricardo, Karl Marx et al. Pasinetti complements these characteristics with the principle of effective demand, whose roots cannot be found in these authors. Keynes was the first to stress the importance of this principle for a ‘monetary theory of production’. The Classics relied upon Jean Baptiste Say’s law of markets, according to which every output generates its own demand. This was, for Pasinetti but even more so for Keynes, a limiting factor for classical analysis. The only exception was Thomas Robert Malthus, who is regarded as the forerunner of the principle of effective demand by Pasinetti. Kurz considers these aspects in his chapter. In particular, he focuses on one point, challenging the view that Malthus is actually the forerunner of the Keynesian principle of effective demand. Kurz shows how Malthus analyses the working of a pure exchange economy, where money is neutral. On the contrary, Keynes focuses on a monetary economy of production, where subjects taking savings decisions (households) are different from subjects taking investment decisions (entrepreneurs). Moreover, the lack of effective demand is originated by a high level of accumulation for Malthus but by a low level of investment for Keynes. On this basis, Kurz concludes that ‘Malthus cannot be considered to have anticipated Keynes’s Principle of Effective Demand’.

In Chapter 4, the preference for ‘Non-ergodic (in Place of Stationary, Timeless) Economic Systems’, that is, ones located in historical time, is discussed at length by Ariel Dvoskin and Paolo Trabucchi. The starting point of this chapter is the criticism that Joan Violet Robinson raised
originally against the neoclassical description of a process of capital accumulation by means of a sequence of equilibria. The basic idea was that, for a system to be in equilibrium, a set of additional and tacit assumptions is required: that the system is in that position for, at least, a considerable period of time; that people expected the system would have been in equilibrium; and that people expect that it will remain in that equilibrium. In such conditions, no process of change can be represented by a sequence of changing equilibria because it clearly breaks the coincidence of expectations with the actual path of the economy. Such criticism was gradually extended by Robinson to the entire structure of the modern classical approach that was being built in the late sixties and the seventies. The criticism probably arose from the fact that classical economists characterised the theoretical positions of the economy with the assumption of a uniform rate of profit. This uniformity is clearly incompatible with what occurs in the process of change in actual economies. Classical economists, on their own, replied that this theoretical position was to be conceived as a centre around which actual economies tend to gravitate. A lively debate arose between Robinson and Garegnani on these points; their positions could not be easily reconciled, and a deep split emerged between the two sides (the ‘Sraffians’ and some ‘post-Keynesians’). Dealing with these issues in great depth, Dvoskin and Trabucchi aim to show why Robinson’s critique does not apply to the modern classical approach. In particular, they argue that while Robinson’s critique of the method based on a uniform rate of profit should be rejected, there is another aspect of that critique that has to do with the specific nature of the neoclassical theory, as this is based on the construction of supply and demand curves.

Enrico Bellino and Sebastiano Nerozzi, who consider the characteristic, ‘Causality vs. interdependence’ (Chapter 5), aim to show how many conceptual points of the classical-Keynesian analysis are based on a suitable interaction between causal and interdependent relationships. In a previous paper (Bellino and Nerozzi, 2017), they analysed Pasinetti’s main contributions in the light of this distinction. The present chapter broadens their analysis to comprise the most prominent figures within the classical-Keynesian school. Following Herbert

3 The exchange was originally published in Italian by Garegnani (Garegnani, 1979, pp. 119–143) and later reproduced in English (Feiwel, 1989, ch. 12).
Simon (1953), the terms ‘causality’ and ‘interdependence’ are interpreted, throughout the analysis, as analytical characteristics of the relations established in a specific theory rather than features of economic reality. A meticulous work of revisiting the analytical formulations of some essential foundations of both classical and Keynesian theories has been presented here to bring to the surface the sequential or the simultaneous nature of the relations between the main variables involved in the theories.

Murray Milgate and John Eatwell, in their chapter ‘Macroeconomics before Microeconomics’ (Chapter 6), paint a very effective picture of the birth and evolution of macroeconomics since Keynes. At that time, macroeconomics did not exist: there was no distinction between micro- and macroeconomics. Then, after Keynes’s *General Theory*, this new field of economic research developed quite independently of the rest of economic theory. And it had to be this way, because Keynes’s inquiry was a real break with the past. Probably Keynes, who focused on giving rapid answers to the burning issues created by the Great Depression, did not succeed in providing a comprehensive framework, alternative to neoclassical analysis. At the same time, the gradual incorporation of aspects of Keynes’s analysis into the Walrasian framework of the neoclassical synthesis contributed to opening this divide between micro- and macroeconomics, micro being the realm of utility-maximising individuals and profit-maximising firms and of equilibrium between supply and demand functions derived from the behaviour of these rational agents. The aggregate relations considered by Keynes, gradually packaged as demand and supply functions, constituted what was called ‘macroeconomics’. Yet, to regard them as demand and supply functions, it became necessary to consider one or more prices as fixed. In this wedge, the question about the ‘rationale’ of those fixed prices was inevitably raised: it became necessary to explain the convenience that rational agents had not to adjust their behaviour to market imbalances (for example, why unemployed workers did not accept a real wage cut in order to get a job?). These interpretations of Keynes’s analysis led to the need for the ‘micro-foundations’ of the relationships between the main macroeconomic variables. It was this reading of Keynes’s analysis that gave rise to the need to put micro before macro. Yet Keynes’s analysis was free from this need: the relationships between macroeconomic variables outline the working of the entire system, which, for Keynes, is not merely the sum of the parts. It is for these
reasons that macro comes before micro in classical and Keynesian analysis. In their chapter, Milgate and Eatwell show how the evolution of macroeconomics after Keynes has taken a route that at first diverges and then becomes even orthogonal to Keynes’s programme.\footnote{The IS-LM model put Keynes’s analysis in terms of (anomalous) demand and supply functions (a ‘fix-price’ model); with the AS-AD model the ‘synthesis’ is totally accomplished: economic policies have real effects only in the short run, because in the medium run the economy reaches its ‘natural’ equilibrium: thus, neo-Keynesian theory gets to conclusions very similar to monetarism.}

Ariel Wirkierman, in dealing with ‘Disequilibrium and Instability (Not Equilibrium) as the Normal State of Industrial Economies’ (Chapter 7), performs an analytical reconstruction of the definition and interpretation of equilibrium and disequilibrium within the framework of structural economic dynamics, by connecting three aspects of Pasinetti’s work. First, the author clarifies the importance of the distinction between pre-institutional and behavioural relations as a methodological standpoint for the analysis of industrial economies. Second, he explores Pasinetti’s argument for a pre-institutional principle of effective demand, by contrasting two simple formal schemes each representing an industrial and pre-industrial society, respectively. Third, in order to extend the relevance of the principle of effective demand when productive capacity is also changing through time, the author connects some features of the contributions by Roy Harrod and Evsej Domar to Pasinetti’s conceptualisation of dynamic equilibrium. Based on these building-blocks, the author finally develops and discusses some logical implications of Pasinetti’s analytical scheme as regards to the (im)possibility of maintaining an equilibrium situation in industrial economies. Disequilibrium, characterised by effective demand being below productive capacity and structural dynamics leading to technological unemployment, seems to be the normal state of industrial economies.

The ‘Necessity of Finding an Appropriate Analytical Framework for Dealing with Technical Change and Economic Growth’ (Chapter 8) has been discussed by Harald Hagemann. The original (and still current) Ricardian dilemma about the effects of the introduction of ‘machinery’ on labour employment has been the backbone of much of Pasinetti’s research, especially that on structural change. In fact, he examined a question that Keynes had, but which he did not have the