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## Introduction

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## Introduction

**Maria Cristina Marcuzzo, Ghislain Deleplace and Paolo Paesani**

In contrast with the reorientation of political economy implemented by Keynes with his *General Theory* less than seven years after the 1929 Wall Street crash, no substantial change in the mainstream approach to economics can be detected twelve years after the collapse of Lehman Brothers. The same Dynamic-Stochastic General Equilibrium (DSGE) model which had been unable to anticipate the crisis still rules research, teaching, and economic policy, only marginally modified to take account of the most obvious flaws of the economic system. In this intellectual environment, going back to past authors may be of some help, not to fuel nostalgia for times gone by but to explore modern economic issues along new perspectives – in short to build theory and understand facts. This is the task of the history of economic thought, when it is not understood as a graveyard for respected albeit no longer read authors but as a living corpus of debates on the same old issues shrunk and distorted by the present mainstream.

This conception of political economy and its history has been applied by Annalisa Rosselli during her long and prolific academic life. The present volume in her honour bears testimony to her commitment, bringing together contributions by scholars who share it to some extent. It is no surprise that specific sections of the book are devoted to “big names” who incarnate unconventional ways of thinking in political economy today: Ricardo, Keynes and Sraffa. Another section deals with the Old Classical tradition from Quesnay to Marx which gave centre-stage to the relationship between the distribution of income and the accumulation of capital – an issue neglected in modern mainstream economics. And the volume opens up with a section on history of economic thought method and scope; it includes new perspectives in gender studies and illustration of the fecundity of the link with economic history.

Drawing on previous research by Maria Cristina Marcuzzo, a recent study empirically identified three trends in the evolution of the history of economic thought during the past 20 years: “1) a sort of ‘stepping down from the shoulders of giants’, namely a move towards studies of ‘minor’ figures and/or economists from a more recent past; 2) the blossoming of archival research into unpublished work and correspondence; 3) less theory-laden investigations, connecting intellectual circles, linking characters and events.” (Marcuzzo and Zacchia 2016: 39) With this quantitative investigation it has been possible to “demonstrate that there is some evidence to support these claims.” (ibid: 29) How does the present volume fit into these trends?

First, it is unquestionably an act of resistance against “stepping down from the shoulders of giants”. Of the ten “giants” considered in the study by Marcuzzo and Zacchia (Smith, Ricardo, J.S. Mill, Marx, Walras, Marshall, Wicksell, Schumpeter, Keynes, Hayek), all except Wicksell and Hayek show up here. If we add to this list three other authors who can hardly be called “minor” (Quesnay, Bentham, Sraffa), eleven of the eighteen chapters deal explicitly with their theories (with frequent overlapping). The winning trio is Ricardo-Keynes-Sraffa, each of them being considered in at least four chapters. Two reasons may account for this unconventional bias. As mentioned above, this volume brings together contributors who wished to express their respect for Annalisa Rosselli’s scholarly

achievements. Obviously some sort of accord appears between the way she has practised history of economic thought and the selection of authors she has studied most. However, a deeper reason also underlies this bias: the common belief that going back to these “giants” is not a sectarian ratiocination about “what they really said” but a defence against the conceptual impoverishment of modern economics and a useful tool to open new paths to a broader understanding of present issues.

If the volume aims to resist one of the trends detected in the above-mentioned quantitative study, it nevertheless also illustrates the third trend detected there: the growing interest in the appraisal of intellectual circles and historical networks, seen from an interdisciplinary standpoint. Seven of the 18 chapters explicitly adopt this method, and in doing so they trace out new perspectives in various fields and subjects: the state of the history of economic thought in the economics discipline, gender studies, and political and intellectual history. More generally, nearly all the chapters in the volume bear out the importance of history in their way of doing history of economic thought. This is a distinctive aspect which calls for further examination.

### **History of Economic Thought and Economic History**

Many chapters in the volume draw on the relationship between history of economic thought (HET) and economic history (EH). Working two-way, this relationship is not to be understood (as it all too often is) as mere historical contextualisation of theory, or, symmetrically, as a departure from theory in favour of history. Things are more complex.

In her presidential address to the 2012 annual conference of the European Society for the History of Economic Thought, Annalisa Rosselli summarised the reconstruction of Ricardo’s theory of money she had put forward with Maria Cristina Marcuzzo (Marcuzzo and Rosselli 1991) and asked: “If this reconstruction of Ricardo’s monetary theory is correct, what is the contribution of EH to it? Could it be arrived at on textual evidence alone, or does a knowledge of the working of the economic system in Ricardo’s times constitute a significant contribution to it?” (Rosselli 2013: 872) Her answer was that EH had been “the source of three major contributions to this reconstruction” (ibid): 1) Factual knowledge of the working of the foreign bills of exchange market avoided the risk “to misinterpret the text” (ibid); 2) It threw some light on “the implicit assumptions of his [Ricardo’s] theory which reflect the behaviour of some of the agents involved” (ibid: 873) – particularly the (inverse) causal relationship between the quantity of money and the exchange rate generated by the liquidity of the bullion traders; and 3) With a knowledge of the *ancien régime* monetary system – characterised by the duality of the unit of account and the means of exchange – we could appreciate the fact that “at the theoretical level it was Ricardo with his Ingot Plan who decreed the end of th[is] system.” (ibid: 877)

It will be observed that this type of approach to HET is both analytical, thanks to its careful attention to the texts (what did past authors say, was it original and consistent, and what link, if any, did it have with today's economics?) *and* historical, thanks to its detailed study of the facts (how did the theories reflect and incorporate social relations, institutions, and practical issues?). To simplify, we will call it an historical-analytical way of doing HET. It is not an easy way, because its specificity may fail to be recognized among historians of economic thought and among economists at large. This is due to two possible confusions which reinforce each other. Since it is concerned with economic analysis and often refers to issues also debated in modern theories, it is confused by some historians of economic thought

with what is usually called a “Whig” approach – one which evaluates past authors through the lens of present-day economics, considered as the scientific achievement of a long historical process. This assimilation neglects the fact that most of the advocates of the historical-analytical way of doing HET share a profound dissatisfaction with modern economics, if not a critique of it. This aspect leads to further confusion, this time not only on the part of some historians of economic thought but also of many other economists. This second confusion is with what is usually called “heterodox” economics and it is all the more likely to be made since, reconstructing past theories in their own right, it often focuses on some “big names” neglected or misrepresented by standard economics (e.g. Smith, Ricardo, Marx, Keynes, Sraffa), and stresses the role of historically-determined institutions in the working of the economy. Acknowledging the specificity of the historical-analytical way of doing HET thus requires dissipation of these two confusions.

### **Economic analysis, but no “Whig” history of economic thought**

Addressing the History of Economics Society in 1987, Paul A. Samuelson declared: “I propose that history of economics more purposefully reorient itself toward studying the past from the standpoint of the present state of economic science. To use a pejorative word unpejoratively, I am suggesting Whig Economic History of Economic Analysis.” (Samuelson 1987: 52) He praised Schumpeter’s *History of Economic Analysis* as “an evident leading example” (ibid: 56) and borrowed from history of science in general: “Remember that working scientists have some contempt for those historians and philosophers who regard efforts in the past that failed as being on a par with those that succeeded, success being measurable by latest-day scientific juries who want to utilize hindsight and ex post knowledge.” (ibid: 52-53) HET should thus be a story of success, equated with the present state of economics, as the Whig politician and historian Thomas Babington Macaulay viewed the history of civilisation as a progressive march towards 19<sup>th</sup> century England. Whig HET may nevertheless take past failures into consideration, provided study of them contributes to scientific progress by preventing their being repeated. The following observation by Takashi Negishi illustrates this view: “To develop our science in the right direction, I believe more theoretical resources should go into the study of the history of economics from the point of view of the current theory. This of course does not mean to cut or stretch a past theory into a Procrustean bed for the current theory. The history of our science should be used as a mirror in which the current theory reflects the knowledge of how it failed to succeed in the past. To learn from past theories does not impede the progress of our science. Progress often means, however, sacrificing something old. To make sure that we are going in the right direction, it is always necessary to see whether we have sacrificed something in error.” (Negishi 1992: 228) The presupposition that past theory “failed to succeed” leads to using HET as a device to confirm that current theory is developing “in the right direction,” by making sure that it only “sacrificed something in error.”

By contrast, the historical-analytical way of doing HET does not presuppose that the shortcomings that may be found in past theories are necessarily errors but considers them as symptoms of difficulties which may also plague modern theory since they arise in the treatment of issues which, in spite of different historical contexts, are common to past and modern political economy. One example is the difficulty faced by any distribution theory in accounting for an economy with heterogeneous capital goods – an issue much-debated during the “Capital Controversy” of the 1960s and which is still unavoidable in any theory going beyond the one good-one representative agent modern models. HET – in the case of Piero

Sraffa's reinterpretation of Ricardo's economics in the introduction (Sraffa 1951) to his edition of the latter's *Works and Correspondence* – had a decisive part in resurrecting this issue by showing that Ricardo's value theory was not an error (mocked by Stigler 1958 as a “93% labour theory of value”) but a device to overcome this difficulty and lay the foundations for a consistent way of solving it – a road further pursued by Sraffa in his own 1960 book *Production of Commodities by Means of Commodities*.

This example also illustrates a broader role played by historical-analytical HET, namely testifying to the consistency and relevance of ways of thinking in economics which were sacrificed not because they were erroneous or obsolete but because, for one reason or another (also to be investigated), they were submerged by different views. This role lies not only in keeping alive the memory of what was valuable in past theories and has been lost, but also in offering alternative approaches to modern standard economics. This means two things: it can only be played within the economic discipline – contrary to the proposal that HET should “break away” from economics (Schabas 1992) – and it implies a critical eye on its present state. This latter aspect is often the source of a second type of confusion.

### **Critical history of economic thought, as distinct from heterodox economics**

Linking HET with EH raises the issue of how specific historical aspects may be introduced in the reconstruction of past theories without losing the generality required by comparison of authors situated in periods distant from one another, including modern times. Here the historical-analytical way of doing HET may find itself in the company of heterodox economics. The matter is all the more complex since some of the advocates of this way of doing HET also envisage their work in the perspective of a critique of orthodox economics and construction (or reconstruction) of alternative approaches to it. There is nevertheless a difference in the way history is considered, and this may be viewed in contrast with the approach of one of the most prominent living heterodox economists – and also someone open to the historical-analytical way of doing HET: Luigi Pasinetti.

In his book *Keynes and the Cambridge Keynesians*, Luigi Pasinetti explains the method which, he holds, opens the way to “a revolution in economics’ to be accomplished” (the subtitle of the book). In particular, money is singled out as illustrating the major methodological distinction (a “separation theorem”) between the level of “*pure theory*”, where “natural” phenomena are studied, and “*the institutional stage, where social and institutional types of behaviour may be explored.*” (Pasinetti 2007: xviii; LP’s emphasis) In a section of the book entitled “On Monetary Theory and Policy”, he gives some clues about this necessary “clarification” indicating “*three degrees of freedom that in monetary production economies open up and need to be closed from outside the foundational basis of the natural economic system*” (ibid: 337; LP’s emphasis): the *numéraire*, the rate of inflation, and the money rate of interest.

This notion of “degrees of freedom [...] to be closed from outside” – e.g. by history – suggests that the basic structure of a theory should be left open, in contrast with the orthodox attempt at subjecting all economic phenomena to the same methodological tools. However, this openness may be understood in two different ways. One, it seems, is Pasinetti’s way: “pure theory” may be completely determined abstracting from the “outside”, and as such applies to different historically-defined economies. History does not affect fundamental economic relations; as applied to particular economies, theory is indeed incomplete but this incompleteness only concerns the possibility of moving from pure theory to applied

economics. The other way is to consider that these relations cannot be completely determined unless the “degrees of freedom” are “closed”, so that their meaning depends on how they are closed. The incompleteness then affects the “pure theory”.

An illustration of this distinction in the Sraffa system is the treatment of the rate of profit as an independent variable. Many Sraffians rely on Sraffa’s famous phrase “It [the rate of profits] is accordingly susceptible of being determined from outside the system of production, in particular by the level of the money rates of interest” (Sraffa 1960: 33) to introduce money and finance as institutions – and the social relations they shape – into the Sraffa system, so that the same fundamental price and distribution relationships described by this system also apply to a monetary economy. It must be noted, however, that, if the existence of an inverse relationship between the rate of profit and the wage share in the aggregate income can be demonstrated for any level of the independently-determined rate of profit, the meaning of this wage share and of the associated price system remains unclear without a theory of the determination of the rate of profit. In terms of the three “degrees of freedom” listed by Pasinetti in relation to money, there is a need for a theory to link them up, before the Sraffa system can be considered as applying to a monetary economy, or, to put it in a few words, the observable world.

This issue of how exactly to open up theory on history is important for the historical-analytical reconstructions that HET performs. The openness of a theory may also derive from its being restricted to a particular field – in the case of Sraffa (1960) the theory of natural prices and distribution – to be complemented with other special economic theories (e.g. concerned with capital accumulation, or effective demand, or money and finance, etc.). In this case history does not take its place outside “pure theory” but in the combination of these special theories.

What can be said of the questions raised by the treatment of history in the Sraffian heterodoxy could also be said of other heterodoxies – whether Post-Keynesian, Marxian, Hayekian, etc. – whenever the temptation arises to separate pure theory from history. Here lies the distinction between the historical-analytical way of doing HET and heterodox economics: the former is interested in testing the consistency of the historical combination of special theories rather than extracting a core of fundamental principles from them. The eighteen essays contained in this book, with their focus on different “special theories” and their historical and institutional dimension, reflect the historical-analytical approach to the history of economic thought as a source of new perspectives on political economy and its protagonists. The essays are divided into five parts respectively devoted to new methodological approaches (Part I), issues in Classical political economy (Part II), and new perspectives on Ricardo (Part III), Sraffa (Part IV) and Keynes (Part V).

### **New approaches**

Sheila Dow, whose contribution opens Part I of the volume, explores the methodological role of the history of thought in economic theorizing, tracing a connection between Adam Smith’s use of the history of ideas for his own theorizing on the one hand and his espousal of the Newtonian experimental method on the other. On this basis, the argument is then developed that study of the history of economic thought contributes to the modern development of theory within a pluralist, open-system approach. Further, the significance of different approaches to history itself is highlighted both for an understanding of Smith and to consider modern-day debate on the history of thought.

While Sheila Dow’s chapter offers arguments affirming the important role there is for the history of economic thought in economic teaching and practice, the following chapter in this

Part I offers a quantitative assessment of how scholars do their work in the field of history of economic thought. The field is operationally defined by Alberto Baccini as limited to the research articles published in the six professional journals indexed in the Web of Science database, namely *History of Political Economy*; *The European Journal of the History of Economic Thought*; the *Journal of the History of Economic Thought*; *History of Economic Ideas*; *Research in the History of Economic Thought and Methodology*; and *History of Economic Thought and Policy*. History of economic thought occupies a small and stable niche in the economic literature, with a production relatively concentrated in a few countries. Books still represent a major part of the primary sources used by HET. Historians cite a relatively small number of journals, and references are relatively concentrated.

One of the findings by Alberto Baccini is that writing in HET is still an individual male enterprise. This is one sign among many of the significance of gender issues in academia as well as society, and of the need to carefully investigate them. In this spirit, we chose to address the issue of gender in two directions. The first — Gender Budgeting (henceforth GB) — is a topic to which Annalisa Rosselli has contributed significantly. GB emerged in the 1980s, building on feminist economics analysis of public resource allocation processes based on male bias in economic models and policy institutions. Elisabeth Klatzer and Angela O'Hagan take an historical perspective on GB, tracing its conceptual development and contestations, and offering a critical perspective on the transformational adoption or institutional co-option that is characterizing GB as it moves from the margins to the mainstream. Klatzer and O'Hagan propose a refined set of favourable conditions necessary to underpin the claim made by Annalisa Rosselli in her work on the topic that GB is a powerful instrument for feminist transformation.

GB aims to promote gender equality by engaging with public finance from a transformational perspective that results in integrating the provision of care in economic policy and deconstructing gender norms which perpetuate inequalities. The second path the book takes as it explores connections between gender issues and new perspectives on socio/economic analysis appears in the chapter by Paola Villa. Villa focuses on the family as a key socio-economic unit in society. The nature of its organization is shaped by cultural values and gender norms that change slowly over time. This implies that history matters in the sense that social institutions (e.g. the family, values, norms) tend to reproduce themselves over time, revealing a certain inability to make the necessary adjustments to new challenges. This chapter argues that in familistic societies — where family ties are strongly rooted in traditional values and gender norms — women bear the burden of unpaid work, with negative effects in terms of both gender equity and fertility decisions. Moreover, economic growth — entailing more job opportunities for women — tends to be constrained in societies where the family still plays a strong economic role (i.e. where there is a disproportionately large share of small family firms).

Part I ends with a chapter by José Luis Cardoso, which reinforces the idea that social constraints play a decisive role in the evolution of institutions and underlines the importance of history in understanding the transformation of socio-economic units, including firms and banks. Cardoso provides a case study - the creation of the Bank of Lisbon in December 1821, in the context of the particular period of political change, namely the Portuguese liberal revolution, which had begun in August 1820. As Cardoso reconstructs, public debt management and control of the paper money in circulation are central themes for an understanding of the origins of, and the reasons for, the modern organisation of banking. These themes invaded public debate in Portugal at the turn of the 19th century, promoting confrontation and convergence of doctrinal and theoretical views on monetary and financial issues in which the overall credibility and trustworthiness of the state were at stake. Study of this example in Portuguese banking history, which shows parallels with other examples of

European banks, also enables us to better understand the rhetorical use of political economy in the course of political action.

### **Classical Political Economy**

The chapters in Part II deal with analysis of the two pillars of Classical political economy, namely Distribution of Income and Accumulation of Capital. Paolo Trabucchi goes over the main stages in the development of Quesnay's *Tableau Économique*, confirming the traditional interpretation of this development as a fundamentally continuous process of clarification and elaboration. On discussing the opposite view, however, i.e. the existence of a significant change in Quesnay's position, a clearer picture of the path he followed between the first drafting of the *Tableau* and its first public appearance is obtained. Retracing that path, Trabucchi ascribes the formulation that marks the last stage in the development of the *Tableau* to the difficulties Quesnay met in reaffirming the sterility of the manufacturing sector, as a temporary alternative to a price theory, and not as an essential component of any such theory.

Antonella Stirati takes up another well-known and amply discussed topic in the literature on Classical political economy, namely the analytical contents of the criticisms levelled at J. S. Mill's theory of the wage fund and accepted by him in his famous 'recantation' of 1869. One reason for the interest in the analytical issues that emerged in the criticisms of the wage fund theory, raised by Longe and Thornton, lies in the fact that they take up and revive many aspects of Smith's approach to wage determination. In so doing, those arguments show its inconsistency with the wage fund theory presented (and eventually recanted) by Mill; that is, they bring out the conflict between Smith's views, representative of the theory of wages proper to the Classical political economy (from Petty to Ricardo), and the subsequently established theory of the wage fund.

The final chapter in Part II explains why modern readers can benefit from studying Classical economists today. As Christian Gehrke, Heinz Kurz and Richard Sturn argue, the Classical approach to studying an economic system in motion under a cumulative process of division of labour offers a superior starting point for analysing the salient properties of capitalist market economies. While modern mainstream economics has adopted, but variously restricted, some of the ideas contained in particular in the works of Adam Smith and to a lesser extent in the works of David Ricardo and Karl Marx, its historical development involved a growing distance and even opposition to the concerns, methods and analytical approaches of the Classical economists. This implied a considerable loss of the huge analytical potentialities they offered.

### **New perspectives on Ricardo**

Among the towering figures of Classical political economy, David Ricardo stands out in this book also because Annalisa Rosselli has dedicated particular attention to him. Appropriately, therefore, Part III is devoted to various aspects of his life and works. Christophe Depoortère, André Lapidus and Nathalie Sigot discuss the possibility, often alleged and widely accepted, that Bentham had an influence on the development of Ricardo's economics. Three possible points of contact have been mooted, the first mediated by the key figure of James Mill, the other two being unmediated reactions to their respective works, Bentham's *Sur les prix* and Ricardo's *Essay on Profits*. Yet, they argue, none of these claims for influence has firm foundations. Regarding the first proposed *rendez-vous*, Depoortère, Lapidus and Sigot show that if Mill had an influence on Ricardo at the beginning of their friendship (say, around 1808), he was at this time Stewartian and not yet Benthamian. The second *rendez-vous* manqué turns on Ricardo's reading of Bentham's manuscript *Sur les prix*: they show that (i) this reading could not have exerted an influence on Ricardo's monetary



thought at an early stage – that is, before his first monetary writings – and (ii) that Ricardo expressed such disagreement with it that any influence from it on his views about money is inconceivable. The third *rendez-vous* was also *manqué*: commenting on Ricardo's *Essay*, Bentham accused him of confusing 'cost' and 'value'. Examining this criticism by turning the focus on the different aims of both authors, related to their explanations of, respectively, inflation and the evolution of distribution, and their different conceptions of price, Depoortère, Lapidus and Sigot conclude that the assumption of Bentham's influence on Ricardo's economics seems hardly defensible.

On a similar line of thought, i.e. how the literature has interpreted Ricardo, the following chapter in this Part looks at the long-standing tradition of Ricardian studies in Japan, which Annalisa Rosselli has visited on a number of occasions by invitation of Japanese scholars. Masashi Izumo, Yuji Sato and Susumu Takenaga recall that, due to the policy of isolationism pursued for more than two hundred years, from the 17th to the mid-19th century, the Japanese knew practically nothing about the European economic thought of the time. It was only after the Meiji Restoration that various kinds of economic thought, including that of Ricardo, came to find dissemination in Japan. The state of Ricardo studies in Japan is different from that in Western countries in several respects. To understand this evolution, the chapter deals with three distinct periods: from the 1860s to the 1910s, the interwar period, and post-WWII. Dealing with the first period, the authors describe how Ricardo was introduced in Japan in the late nineteenth and early twentieth century. Subsequently, the chapter illustrates the development of Ricardo studies in Japan during the interwar period and, finally, the controversial interpretations of Ricardo's theories that have been advanced from 1945 to the present day. The chapter focuses on several topics such as the theories of value, rent, wage, money and finance that were passed on to later generations of scholars, paying particular attention to the Japanese studies that offer original approaches and thus afford interesting comparisons with similar debates in foreign countries.

The publication of *Production of Commodities by Means of Commodities* by Sraffa in 1960 was another landmark, after his *Introduction to Principles* in 1951, in Ricardo scholarship. Carlo Benetti and Jean Cartelier inquire into what could or should be a Classical theory of money and prices sixty years after Sraffa's *magnum opus*. They take as granted three basic propositions: (i) Sraffa's system of prices is relevant for determining Classical natural prices; (ii) a monetary standard (gold) is central to a Classical theory of money; and (iii) the Cantillon-Smith rule is pivotal to Classical market price determination. They contend that: (i) the coexistence of a natural price and a legal price of gold is a necessary condition for a Classical theory of money; (ii) the market price of gold cannot be different from its legal price (no arbitrage); and (iii) regulation of the quantity of money remains an open question.

### **New perspectives on Sraffa**

It is a logical step in the structure of the book to turn to Sraffa, who, subsequent to the opening of his Archives, has been receiving greater attention from scholars interested in forming a better idea of his life and work. In the first chapter of Part IV Jean-Pierre Potier examines the relationship with Antonio Gramsci, in particular on Ricardo, Classical political economy, and 'pure economics'.

For Gramsci, the importance of Ricardo in the formation of Marx's ideas must be reassessed from the point of view of the conception of the world and history. In 1932, he asked the opinion of Sraffa, who was highly sceptical about any Ricardian historicism, sending him bibliographical indications. Unfortunately, Gramsci received none of this bibliography and was unable to react to Sraffa's remarks. On the other hand, he commented on Pantaleoni's *Principii di economia pura* and advanced an opinion on *An Essay on the Nature and Significance of Economic Science* by Robbins, through an indirect source. On the

questions raised in these books, Gramsci would have appreciated some dialogue with Sraffa, a critic of marginalism, but unfortunately it did not come about.

On the origin of the equations which became the building blocks of Sraffa's book, there has been some disagreement in the literature. Nerio Naldi tackles the issue from a new angle, namely how Sraffa came to introduce price variables into his equations. Building upon Garegnani's analysis (e.g. Garegnani 2005), Naldi shows that Sraffa's earliest equations included only things and no price variables, and he aims to explain why Sraffa still tried to maintain his earliest formulation for the case of a no surplus economy even after he had decided to introduce price variables into his positive surplus equations.

But what can still be learnt from Sraffa's study of prices in a surplus economy? From the sixties to the nineties drastic changes occurred in our real economic system and in the meaning of what can still be called the global reproduction of this system. Today it is therefore crucial to reconsider the ability of Sraffa's intellectual legacy to grasp the working of our present economic system, taking into account the opening of his Unpublished Papers in 1993. This is the issue addressed in Richard Arena's chapter, which closes Part IV. Arena reminds us that before the nineties, two opposite interpretations of Sraffa's economic theory prevailed. The first consisted in defining what was called the "Classical theory of general economic equilibrium". It was intended to differ from the old version, described as "neo-Walrasian". The second rejected the view of Sraffa's contribution as a new version of the theory of general economic equilibrium (GEE) and tried to provide alternative constructions. However, today things have changed. Using both *Production of Commodities by Means of Commodities* (based on a scheme of general interdependence) and Sraffa's criticism of Marshall's partial equilibrium, Arena shows that price theory no longer offers sufficient scope. A broader view has to be considered, seeking to understand the right approach to analysing how the surplus of a production economy is distributed amongst economic agents and social groups, within various given historical systems of institutions, whether including markets or not.

### **New perspectives on Keynes**

Finally, the first two chapters in Part V, which proposes new perspectives on Keynes, take a long view of the issues connected to the notion of liquidity, at both the substantive and methodological level. Richard van den Berg begins his investigation by looking into Joseph Schumpeter's inclination to read Keynesian precedents into 'mercantilist' monetary writings. He focusses on a single instance in which Schumpeter argued that a passage, which he attributed to the 18th-century author Malachy Postlethwayt, 'reads like' Keynes's theory that money interest depends on liquidity preference. The fact that Schumpeter did not fully understand the circumstances under which the much earlier passage was written, and did not even realize who originally wrote it, does not necessarily invalidate his interpretation of it. Rather, it illustrates the historicity of historiography, or how the emergence of new economic theories, like Keynes's theory of interest as a monetary phenomenon, prompts new readings of old texts. The main point which van den Berg makes is that what readers 'made of' a text is an object of historical study that is distinct from the 'original purposes' that its author may have had. Later commentators will predictably bring concerns and perspectives of their own time to bear when interpreting earlier economic writings. Simply condemning such interpretations for being 'retrospective' is often all too simple.

In the same vein – searching for the original meaning of a concept by placing it in the context in which it originates; – Luca Fantacci and Eleonora Sanfilippo examine the idea of "the liquidity trap", starting from the observation that its definition is not univocal. Fantacci and Sanfilippo turn back to the original meaning of this expression in the works of the economists that first introduced it into economic analysis, namely Keynes and Robertson.

Building on primary sources and unpublished material, this chapter provides a reconstruction and contextualization of the original use of this expression in economic analysis with the aim of contributing to a better understanding of its meaning. In particular, Fantacci and Sanfilippo point out that, in the early theoretical debate among the first economists who addressed this issue, the notion did not designate merely a specific circumstance, characterized by the ineffectiveness of monetary policy at the zero lower bound, or at low interest rates, but referred to a more general problem concerning the nature of liquidity as a shelter from uncertainty and the related structural tendency of a monetary economy towards stagnation.

The last two chapters enlarge on the issue of the relevance of these methodological aspects to present-day issues, both in terms of reconstructing an alternative to neoclassical economics and for policy considerations.

As we know, Keynes formulated a “monetary theory of production” that led to a liquidity-preference theory of financial asset prices, while Sraffa developed a theory of prices of production. Jan Kregel and Alessandro Roncaglia charter a less known territory and explore similarities between Keynes and Sraffa, suggesting a fruitful symbiosis of the two approaches. Both challenged neoclassical price theories. Keynes rejected the idea of a natural rate of interest determined by conditions of production, arguing, rather, that the rate of interest is endogenously determined by asset preferences subject to policy decisions of the central bank, while Sraffa rejected the productivity determination of the rate of profits, suggesting a monetary determination of the rate of interest influencing income distribution. As for the analytical method, both isolated a specific objective and identified the most important elements relevant to the problem under consideration. Kregel and Roncaglia outline the Classical ‘circular-flow’ notion, the ‘photograph’ interpretation of Sraffa’s analysis, and the structure of Keynes’s theory.

The final chapter addresses the issue of the relevance of the Keynesian approach to policy. Mario Sebastiani reminds us of a passage in *The End of Laissez Faire* in which Keynes asserted: “For my part I think that capitalism, wisely managed, can probably be made more efficient for attaining economic ends than any alternative system yet in sight, but that in itself it is in many ways extremely objectionable. Our problem is to work out a social organisation which shall be as efficient as possible without offending our notions of a satisfactory way of life” (Keynes 1926: 295). This observation encapsulates Keynes’s “manifesto”, his economic and social – in a word, political – vision and programme; a far-reaching vision, to be implemented not on the macroeconomic level only, but by rethinking the *laissez-faire* creed as a whole. The clash between individual and social calculation is not a passing ailment, negligible as a transitory deviation from a steady state of good health, but a structural condition affecting every aspect of economic and social life and calling for structural remedies. Accordingly, Keynes’s fundamental aim was to reform the relationships between the “State” and the “market” – not the State *vs.* the market – searching for a way to reconcile them, with a view to promoting a more efficient and just economic and social system.

In their attempt to provide New Perspectives on Political Economy and its History, the eighteen essays collected in this book try to respond to the wish that economics might embark along a different route, whereby economists take into serious consideration past theories and concepts which have failed to survive in the evolutionary struggle of ideas for no good reason, but simply because they have been “submerged and forgotten” with the shift of paradigms. This is a wish that we are certain Annalisa Rosselli fully shares.

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