Luigi L. Pasinetti, Keynes and the Cambridge Keynesians: 
A ‘Revolution in Economics’ to be Accomplished

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In 2007 Keynes was desaparecido. For the economic profession, virtually dead. As sometimes occurs, unforeseen events are able to resurrect people. Above all, great ones. If the resurrection comes about more than once, they become classics.

In the past decade, Keynes enjoyed a resurrection. The great recession (or whatever the recent crisis, starting with the subprime collapse, is called) provoked the U-turn. If facts change, even a stubborn person tends to change his mind. More than one did, and Keynesian publications, or publications with references to Keynes, flourished. After all, the master – as Skidelsky (2009) called him – is associated with the Great Depression of 1929, and what happened after 2007 is a wakeup call warning that past and present history may be one and the same. Thus, public expectations of finding Keynes’s name on the bookshelves revived.

Business is business, and effective demand plays a key role in determining supply. So books on and about Keynes started to satisfy consumer appetite in the past years. Whether all their authors were genuine Keynesians, or Keynes experts, is doubtful. A suspicion arises that many last-hour conversions were driven more by opportunism, and need of popularity, than intellectual honesty.

The book under review here does not belong to these series. It was originally published in English just a few months before the Dow Jones Industrial Average started to plunge at the end of 2007. Its author cannot be associated with the converts of the last hour, and he is immune to charges of opportunism. He has been a Keynesian since the outset, when in the 1950s he began crafting his first papers. Furthermore, the book was written for the series “Federico Caffè Lectures”. Caffè was an economist, born in 1914, who became one of the
first to import Keynes’s new message into Italy. He made the mistake of taking it seriously. His story is at the same time fascinating and tragic. He was a great promulgator of Keynes’s approach, Keynes’s theory, and Keynesian policy intervention. He taught at the University of Rome, and nurtured great pupils in economics. A few of them died young or in tragic circumstances (Tarantelli and Vicarelli, for instance). In the 1970s and 1980s, Caffè felt alone, under fierce attack by those announcing Keynes’s death. One day he walked out of his house and disappeared. Some conjectured suicide; others believed he had retired to a monastery. His body was never found, dead or alive. Rumours about the mystery never ended. Caffè was a member of the Accademia dei Lincei – the Italian science academy. To honour his memory, an annual economic lecture was organized in the 1990s. Pasinetti was invited in October 1994. Twelve and half years later, he was ready to put his contribution in print. So this is by no means an instant book on Keynes’s resurrection. Pasinetti never thought he was dead.

Such a cool approach to publication recalls another protagonist that, together with Keynes, appears on the book-jacket. He sits, like the master does on the front cover, in a comfortable armchair on the back cover. Piero Sraffa is slumped there with inquisitive eyebrows, holding a light-bulb out to his observers. His presence is justified not just to remind us that books take hard thinking and time to be published – over 40 years (index volume included) in one case (Ricardo, Sraffa, et al. 1951-1973), and almost 40 years in the other (Sraffa 1960) – but for another important reason, too. Sraffa plays the role of supporting actor in this book, namely that of strengthening analytically the message of Keynes.

The task of staging together the two economists is not an easy one. Sraffa and Keynes were two different species, both in private and in academic life. They had a common interest: books, best if rare and obscure. Otherwise, they diverged. In personality to begin with. Keynes liked and enjoyed social life, public display and group conviviality. Sraffa

\[\text{\footnotesize{1 For instance, they discovered and edited together a pamphlet by Hume (1938), unknown before.}}\]
was introverted, sharing his time with very few people, if any. His days (and possibly nights) were spent in the library and not in circles or committees. He was interested in political matters, but he never thought of working for a government, unlike Keynes. The latter was dynamic, eclectic, pragmatic. He wrote almost daily, usually for newspapers or magazines. As a writer, he did his best in short articles, or pamphlets. Sraffa also wrote daily, but solely for himself.\(^2\) For publishers he wrote little, often forced by others. His style was dense, and distant from current topics. He mastered economic thought and pure theory, but few knew him, even among the economists (see Levine 1974). Those few, however, were impressed (even without being economists\(^3\)).

As a PhD student, and afterwards as a lecturer at Cambridge, Pasinetti was one of them. He arrived there in the mid-1950s, too late to meet Keynes, who left untimely orphans his disciples in 1946, but in time to appreciate Sraffa and his freshly printed works. The publication of the main volumes of the Ricardo’s *Works and correspondence* (Ricardo, Sraffa, *et al.* 1951-1973) was under way, with a long introduction by the editor, foreshadowing the approach of his enigmatic masterpiece, published few years later (Sraffa 1960). Among the young Keynes’s pupils, Sraffa had the reputation of being a formidable critic, having a granitic logical mind. Mathematical economics was gaining momentum, and it was the right time for Sraffa’s qualities to shine. He was not a mathematician, nor did he use heavy mathematics in his texts, but like Ricardo, his thoughts were mathematically tractable. The capital controversy between the two Cambridges, saw Pasinetti (1966) as one of the main actors, but Sraffa was the theoretical director in the backstage. As the author’s book makes clear, he is the salt to season Keynesian theory:

I shall try to find a cohesive framework for unifying the whole of Keynes’s and the Cambridge Keynesians’ theories under a single (scientific) umbrella. I shall do

\(^2\) His notes and correspondence are kept at the Wren library, Trinity College, Cambridge UK.

\(^3\) Wittgenstein was the best-known, but not the only one.
this precisely by placing Sraffa’s approach to economics, duly integrated by an apparatus of (structural) economic dynamics, at the very heart of the whole theoretical construction (Pasinetti 2007, xvii-xviii).

Let us, then, take a closer look at the plot. The title first. *Keynes and the Cambridge Keynesians* clearly points to the subject matter and the “scene of crime”. Cambridge was Keynes’s cradle and safe house ever since. It was also the place where he selected a few hand-picked pupils (those of the ‘secret’ seminar), who later became well-known economists. They formed one of the two branches of the Post-Keynesian school, which was mainly concerned with issues connected to the real economy. They appear in the book under the collective label of the Cambridge Keynesian school, which the author himself belongs to (Baranzini and Mirante 2018).

The subtitle of the book is more controversial and intriguing: *A revolution in economics to be accomplished*. In Kuhn’s (1962) words, a revolution is the breakup of the existing dominant paradigm – a move away from normal science. Keynes did not doubt his 1936 effort contained radical ideas, which would ignite a revolution in economics in due time. However, the statement that it needs “to be accomplished” seems questionable from contrasting positions. Some believe that Keynes’s (1936) *General Theory* already constituted a complete theoretical revolution, even though it has not – yet – become mainstream. Others argue the opposite, namely that it failed to establish a new paradigm, considering that economics nowadays (or until shortly ago, given the recent crisis) is largely of a pre-Keynesian type, with no empathy for Keynesian economic theory and, above all, for Keynesian economic policies. Hence, either because it has already been achieved, or because it has already failed, there is no “unaccomplished” revolution to wait

4 Here the much-quoted passage by Keynes comes from a letter to George Bernard Shaw, dated 1 January 1935: “I believe myself to be writing a book on economic theory which will largely revolutionise ... the way the world thinks about economic problems.” (Keynes 1973, 492).
for. On this point, the author concedes that Cambridge Keynesians “by paying too little attention to the positive aspects of each other’s contributions, have not encouraged the search of a comprehensive theoretical framework”. But the concession is made simply to reaffirm that such an innovative framework “can and still should be accomplished” (Pasinetti 2007, 37-38). The question is, how?

The answer is not immediate. Indeed, title and subtitle describe rather accurately the three-step sequence of the main contents: what Keynes on one side, and the Cambridge Keynesians on the other, did – and didn’t – do, and finally what the author did (and does still feel necessary) in his attempt to accomplish the alleged revolution. Accordingly, the book is split into three “books” – as they are called (inverted commas are here added to avoid confusion). Parts would have been an appropriate name, but it is a negligible fault: among other scholars, Keynes (1936) and Smith (1776) did the same, with their own masterpieces. The first “book” contains the author’s Caffè lectures, dealing with the genesis of Keynes’s new theory. The second is a collection of portraits of a team of five Keynes’s pupils, most of whom made up the school of Post-Keynesian economics at Cambridge. Sraffa was among them, even though he is generally recognized as the forerunner of the Neo-Ricardians, not the Post-Keynesians. But his presence is essential, given the author's thesis that Sraffa helps to complete Keynes. The third “book” incorporates this thesis, discussing why the Keynesian paradigm is still alive, and how to enhance it, applying Sraffa’s approach.

The work could be classified therefore in the interstice between the history of economic thought and economic methodology. There is no formalized theory with maths in it, apart from one exception in a summary table (in the third “book”). Some formulas are collected there, but in the pages before and after, they are also explained in a descriptive manner. Also for this reason, the book would appeal to general students, scholars, and specialists eager – or at least curious – to find out what a prominent Keynesian economist thinks of what happened, and what could happen next, to Keynes’s thought. With the exclusion of the above table, also a layman interested in the history of ideas can approach the text – no
need for a PhD in economics or mathematics (the two areas largely overlap nowadays) to understand the eleven chapters of the book.

Pasinetti is probably one of the few (some say, one of the last) great theorists. Like Keynes and Sraffa, in his main theoretical works he looked at the big, general, picture rather than a particular aspect of it. Take, for instance, Pasinetti (1981) or Pasinetti (1993): in these books there is a theory of income, value, employment, trade and interest rate. The logic of the economic system as a whole is brought out. There is macroeconomics in them, as in Keynes (1936), but also mesoeconomics, with sectoral analysis, and is in Sraffa (1960). To understand their last chapters (here a PhD in the area could help), one must go through all previous chapters. In this volume, instead, the three “books” are indeed three books. They could be read separately. Obviously, the topic under focus is the same (Keynes’s paradigm), but there is no need to read Chapter I to plunge into Chapter XI.

Robert Solow, commenting on the book’s effort during its presentation at the Accademia dei Lincei in 2008, argued that the author, like Keynes in The General Theory, worked on several intersecting themes: pars destruens and construens, theory and policy, methodology and history. All this makes it difficult to pin down the essence of the book. This is probably true. However, compared with The General Theory, it is reasonably better written (The General Theory was Keynes’s most poorly written book), although it contains less novel thinking – that’s the fate when writing on existing schools of thought as the author largely does throughout the volume.

At the core of the first “book” lies the critical question of whether Keynes’s (1936) General Theory was an original theory. Some doubt it, but not Pasinetti. When did Keynes begin to conceive it? As we know, Keynes was not always Keynesian. He grew up Marshallian, i.e. with a traditional (marginalist) approach in mind. He maintained this approach, perusing his main publications, until the beginning of the 1930s. Then something

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happened and he changed his mind. How drastically and when exactly the jolt occurred is a matter of dispute. In chapter I and II, Pasinetti gives an account of some crucial chronological events. There was no precise breakthrough that split the revolution into a “before” and “after” phase. There was a crescendo, easily confused with a continuum. The phenomenon is also well-known among technologists. The more you plunge into details, the more you find small changes, rather than big leaps. Schumpeter (1934, 64) argued that you could “add successively as many coaches as you please, you will never get a railway thereby”. Yet, the first trains were built with existing coaches. So was the new Keynesian theory. It was new, but several building blocks had been developed and recognised before the drafting of The General Theory. How long before? More or less five years, according to Pasinetti’s chronicle. Having completed the Treatise of Money in 1930, Keynes began to realize that money could not cure the Great Depression: as a drug, it was too little, too soft – like an aspirin. The disease of mass unemployment needed a different medicine. Its new galenic ingredients were extracted largely from the real economy. This was the case with the principle of effective demand, the multiplier, the marginal efficiency of capital. Money remained important to explain the causes, not to patch up the consequences of the economic disaster: its non-neutrality explains why it stayed central; the liquidity trap explains why it became ineffective. Keynes (1936) finally chose the title of his new book – The General Theory – to resemble Einstein’s (1920) path-breaking work on relativity. But the title originally envisaged is equally revealing: The Monetary Theory of Production.

The Cambridge school of Keynesian economics took the “production” part of the theory seriously. On the other side of the Atlantic, the American school of Keynesian economics took on the “monetary” (i.e. financial) part of it. The second “book” is concerned with the first of these two schools. It contains several portraits of its protagonists, largely drawn from various previous occasions, stitched together with a section of prelude, one of interlude, and a last one – you guess – of postlude. What comes out of it is certainly not funeral music, but it is no wedding-march either – Keynes’s pupils had to some extent been unwise, according to the author. His attitude towards them is sympathetic, but not indulgent. They include, Khan, Kaldor, Robinson, and then Sraffa. There is also Goodwin,
to fill out the picture. The latter, coming to Cambridge UK from Cambridge Mass, could have built a bridge by connecting Keynes’s new theory with another revolutionary approach, the Schumpeterian one. But the match did not go well as one might have hoped. Goodwin later moved to Italy, where he produced good paintings and epic “poems” in economics, according to Samuelson (Forward, in Goodwin and Punzo 1987). But it was too late for the Cambridge Keynesians to enjoy and take advantage of them – the “poems”, I mean.

If Goodwin could have been the bridge to Schumpeterian theories, Sraffa was the bridge to Classical theories. He was a protégé of Keynes, but not strictly speaking a Keynesian himself. As a scholar, he appears an enigma. He did not write a book until late in his life. At the age at which Keynes died, 62, Sraffa (1960) brought out *Production of commodities by means of commodities*. His dry analysis and his attention to fundamental principles are, in Pasinetti’s opinion, an important step in developing the production paradigm and in reinforcing Keynes’s theory. Let’s see why.

According to the author, all the main schools of economic thought can be split into two opposite and broad paradigms: the production paradigm and the exchange paradigm. On the former we have the Physiocrats, the Classics and the Keynesians. On the latter are accommodated the Mercantilist, the Marginalist and nowadays the Neoclassics. The former paradigm serves to interpret the epoch of industry; the latter that of trade. The first industrial revolution made the production paradigm central. The Classical school started to clarify its contents. And Sraffa, in turn, rigorously clarified the achievements of the Classics. With the same rigour, he also put some spokes in the wheels of the Neoclassical school, which is the last reincarnation of the exchange paradigm. In Pasinetti’s opinion, with *The General Theory*, Keynes made truly crucial – revolutionary in fact – contributions to the production paradigm, but overall they appeared more empirically relevant than analytically rigorous. Sraffa comes to play here, in the attempt to improve the strength of Keynesian theory in several aspects, above all fundamental and formal (read mathematical) ones. To see how these improvements came about, you have to plunge into the third “book”.

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Its title, “Towards a production paradigm for an expanding economy”, in itself contains the hint on how to move ahead with the Keynesian revolution. To begin with, the author attempts to explain why the Neoclassical mainstream failed to defeat it: Keynes’s *General Theory* does have history on his side – what happened in fact since 2007 makes it a prophetic book, that is a classic. The question is, then, how the Keynesian production paradigm could forge ahead and, after some battles, also win the big war – the one that will decide what economics is about. The proposed magic bullet is methodological. It consists in placing some key Keynesian principles in a Classical and Sraffian setting. The menu served offers a multisectoral analysis, dynamic features, a theory of value, and attention to the long run. After all, since Keynes life-expectancy has increased considerably.\(^6\) The firm belief is that immutable structural laws, detached from human will and contingencies, exist in economics.

In doing this, the author introduces a notional device called the “separation theorem” (Pasinetti 2007, 274). It asserts that economic analysis should be split into two dimensions or stages: pure theory and institutional analysis. The author calls the first dimension the “natural” economic system (inverted commas here added). He sees Sraffa as the master of this dimension. As with nature, also the “natural” economic system is the place where laws are based solely on objective, and enduring true, analysis. These laws are so fundamental that they cannot be infringed by human intervention, but can only be taken as they are. For instance, prices are connected to costs of production, while profits and wages compete in sharing national income, the latter being connected to (labour) productivity. Demand determines supply, which determines employment – not necessarily full employment. Subjective analysis is not considered at this stage. There is no preferences or utility theory, nor market mechanisms – nor, for that matter, central planning decisions in the pure theory. These aspects are the realm of institutional analysis, which is based on elements that humans can change to a large – although not infinite – extent. In fact, individual and social

\(^6\) No wonder that in one of the author's pc screensavers the running script (touching wood) read “In the long run we are still alive”.

behaviour is developed on top of the “natural” economic system. No human intervention is able to change the “natural” economic system, but the former, having some knowledge of the latter, may take advantage of it. This does not mean – in the author's perception – that institutional analysis is unnecessary. Rather, in practice it plays a critical role, since it is able to close the several degrees of freedom left open by the “natural” economic system. In so doing, it makes a monetary production economy work in a precise historical and geographical context.

Keynes (1936) strived to master both dimensions in his main work. The Cambridge Keynesians concentrated on the second dimension – institutional analysis – paying too little attention to improving the first. Sraffa counterbalanced the approach of his fellows, focusing on the “natural” system. And Pasinetti is on his side. Will this methodological expedient of separating objective from subjective analysis contribute to accomplishing the Keynesian revolution? Time will tell, but one required step has already been made. With this book, regardless of prevailing views, and prior to more recent publication trends, the author has achieved at once two resurrections from scientific oblivion: Keynes’s is the obvious one, but there is also Sraffa’s. They have been made not to retrieve past remembrances, but – as the last Chapter suggests – to look forward to the future of economics.

References


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