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Garegnani's work and the prospects of the surplus approach: an introduction

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Abstract: This introduction provides a list of questions in order to highlight different aspects of Garegnani's work and possible lines of advancement in the surplus approach. The questions concern 1) the criticism of the marginalist theory and the present state of the capital debate; 2) the separate determination of prices and outputs and Garegnani's distinction between the relationships within the "core" of the surplus approach and the relations outside it; 3) the relationship between Sraffa and Marx; 4) growth theory; 5) the determinants of income distribution.

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JEL classification: E11, E12, E13

On the tenth anniversary of the death of Pierangelo Garegnani (1930-2011), the *Bulletin of Political Economy* has collected contributions on Garegnani's works devoted to bringing economic theory back to different paths from those followed since the end of the nineteenth century with the prevalence of the marginalist theory of value and distribution.

Along lines opened up by Sraffa, Garegnani's scientific activity focused both on a critique of the marginalist theory and on a revival of the surplus approach of Smith, Ricardo and Marx.[1] A constant of his work was also the attention to concrete economic phenomena and the search for economic policies that guaranteed the wellbeing of the largest part of the population. Of course, Garegnani viewed this aspect of his work as strictly interconnected with his theoretical analysis since, for instance, the suggestion in favour of Keynesian economic policies or the critique of Pareto optimality (with all its implications for economic policies) had to pass through a critique of the marginalist theory and the simultaneous clarification and development

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of an alternative theoretical approach.

To do this, Garegnani first draws on the richness of what can be seen in the classical economists and Marx, but also on Keynes's principle of effective demand and the idea that investment is mostly influenced by changes in aggregate demand. Furthermore, he thought that he could draw on studies on cost inflation and those of Marxist and neo-institutionalist economists concerning the labour market and wage differentials (see Garegnani and Petri 1982). This openness of Garegnani to contributions of different strands of thought stemmed from his clarification of the analytical structure of the classical approach and its compatibility with different solutions regarding the determination of the wage rate, the social product and the methods of production, namely of those "intermediate data" (as Garegnani called them) that, in this approach, determine the rate of profits and relative prices. On the other hand, according to Garegnani, although the work of reconstructing an economic theory which is an alternative to the marginalist one had, after Sraffa, already achieved important analytical results – in the fields, for instance, of price determination, rent theory and fixed capital - the issues that reconstructive work should focus on are mostly those related to the determinants of "intermediate data", that is, the issues related to a) capital accumulation and the determination of outputs; b) the determinants of income distribution between wages and profits; and c) the determinants of the technical conditions of production (to a large extent ignored in the marginalist theories).

In order to highlight different aspects of Garegnani's work and possible lines of advancement in the surplus approach, a list of questions was submitted to the contributors to this issue, leaving them free to answer only a few. The questions concern 1) the criticism of the marginalist theory and the present state of the capital debate; 2) the separate determination of prices and outputs and Garegnani's distinction between the relationships within the "core" of the surplus approach and the relations outside it; 3) the relationship between Sraffa and Marx; 4) growth theory; 5) the determinants of income distribution. We hope that the answers to the questions which we list below may help to clarify the relevance of Garegnani's contribution to economic theory and provide interesting insights for its development along classical-Keynesian lines:

1) Garegnani criticized the logical consistency of Clark's, Bohm-Bawerk's, Marshall's, Walras's or Wicksell's versions of the marginalist theory. He also extended his criticism to the neo-Walrasian 'short period general equilibrium' models (as Garegnani

called them) where the initial factor endowments include the amounts of different capital goods, and the prices of inputs and outputs are distinguished by date. He stressed the faults in the change in the notion of equilibrium that had occurred since Hicks's *Value and Capital* and tried to show that a savings-investment market was implicit in the Arrow-Debreu model, implying the possibility of "perverse" relationships between product per worker, 'capital' per worker and the rate of interest of the kind that emerged in the capital debate of the 1960s and 1970s (cfr. Garegnani 1990 and 2013). What today is the relevance and significance of Garegnani's critiques of the marginalist treatment of capital? Why in economic theory, and especially in macroeconomics, have the results achieved in the debate between the "two Cambridges" been obscured? Does this removal have any relation to the widespread idea of a low probability of the phenomena of re-switching and reverse capital deepening and what is your stance on this idea? Why insist on capital theory when criticizing marginalism rather than, for example, on the Sonneschein-Mantel-Debreu theorem or simply the inability of the neoclassical theory to explain the functioning of capitalist economies?

2) When clarifying the analytical structure of the classical theory, Garegnani distinguished between two fields of analysis which are characterized by relations of different degrees of necessity and generality (Garegnani 2007). In what Garegnani called the 'core' of the classical theory, we find relations that are both formally definite and general in their nature, as in Sraffa's price system. Here, for instance, we know exactly the effect on the rate of profits of a change in the methods of production of a basic commodity, or we can draw mathematical relations between the wage rate, the rate of profits and relative prices. Conversely, outside the 'core' of the theory, we have relations with a lower degree of generality. They are relations which ultimately determine the variables that are 'intermediate data' in the 'core' (namely, the wage rate, the social product and methods of production) by taking into account the interactions between them and relative prices, as well as the influence of social–historical factors. What do you think about this distinction between the different fields of analysis? Is it really possible to separate price and output determination when considering joint production and the natural resources? How should changes in output

composition be dealt with when income distribution and/or the method of production change? And if outputs change when income distribution changes, do these changes affect the methods of production and therefore in turn relative prices?

3) According to Garegnani, Sraffa's price system determines the 'natural prices' «to which the prices of all commodities are continually gravitating» (Smith 1776: p. 65) over a period of time long enough to permit the 'fitful and short-lived' phenomena 'to efface one another's influence through the repetition of the activities' (Garegnani 1990: p. 50). However, economic theory usually refers nowadays to short-run equilibria, sequential economies or steady state paths. Even among those who follow Sraffa's revival of the surplus approach, the idea of normal prices as "centres of gravitation" is questioned and it is argued that Sraffa's price system can determine only "notional" prices (cfr. for instance Roncaglia 1990). In this respect, what is a meaningful notion of long-run prices? Is it possible to show the tendency of market prices to gravitate towards natural prices? How should technical progress and the effects of changes in output on the methods of production be dealt with? Conversely, can the determination of 'notional' prices make correspondence between theoretical and observable magnitudes possible?

4) Garegnani viewed Sraffa's rediscovery and development of the surplus approach as a point of departure for a revival of Marx's "critique of political economy." More specifically, he argued that the reality of exploitation, commodity fetishism, the inherent contradictions of capitalism and its historicity are independent of the labour theory of value. Do you agree with Garegnani's ideas? What do you think of the recent *New Interpretation* of Marx advanced by Foley and others?

5) In the Classical-Keynesian approach, capital accumulation and with it the output trend is affected by the state of long-term expectations regarding aggregate demand. Their changes are viewed to generate changes in output through immediate changes in capacity utilization, which lead in turn to the creation and destruction of productive capacity through higher or lower flows of investment. However, two different approaches have been developed to determine output growth based on this extension to the long run of the principle of effective demand. In the one based on the so-called supermultiplier,

it is assumed that the degree of capacity utilization tends to adjust to its normal value. Another approach stresses that the *average* degree of capacity utilization can be different from the normal one. It is stressed that the gravitation of market prices towards their normal levels does not necessarily entail full adjustment of capacity to the level and composition of effective demand. Normal prices may in fact prevail when produced output has the right composition with respect to the "effectual demand." Moreover, in the case of prices, the relevant adjustment is limited to the new capacity created by investment flows and does not require the *whole stock of capital* to be fully adjusted to aggregate demand, even if a tendency towards normal capacity utilization is always present in the economy. What are the implications for a theory of normal output when following these different approaches? Does the possibility of an average degree of productive capacity that is different from the normal one impair the inverse relationship between the wage rate and the rate of profit? What is the relevant notion of the rate of profits in the theory of distribution when taking into account that the actual utilization of productive capacity cannot be foreseen by entrepreneurs? Is there an influence of the normal rate of profit on capital accumulation and/or is this driven mainly by demand factors?

6) Garegnani and others (cfr. for instance, Pivetti 1991) contributed to tracing the roots of Sraffa's suggestion of a rate of profit that is 'susceptible of being determined by the level of the money rates of interest' (Sraffa 1960, §44) back to the ideas of Keynes on the rate of interest as a monetary phenomenon. In Garegnani's words, Keynes's suggestion that "the average level of the rate of interest on long-term loans will be determined by conventional factors ultimately subject to the policy of the monetary authorities (Keynes 1936: pp. 203–204), would suffice to constitute the nucleus of a theory of distribution. Indeed, it seems reasonable to suppose that, as a result of competition in product markets, the average rate of profit and the average rate of interest on long-term loans will tend, over a sufficiently long period of time, to move in step with one another. If then, the rate of interest depends on the policy of the monetary authorities, both the long-term movement of the average rate of profit and, through the relation just mentioned, that of the real wages are explained by that policy". (Garegnani 1979: p. 81). What do you think about this idea of "closing" Sraffa's price system

by taking as given the rate of profits? Is the "monetary theory of distribution" able to explain the trend in income distribution over the last decades? Conversely, is it possible to reconcile the monetary nature of the rate of interest with a determination of the rate of profit by the wage rate and the technical conditions of production as suggested by Marx? How should the normal profits of enterprise be dealt with and what are their determinants?

7) According to Garegnani, unemployment is the weapon which, in the form of anti-inflationary policies, progressively substitutes inflation in limiting the increase in real wages after the 1970s (Garegnani et al. 2004: p. 47). Once again according to Garegnani, the increase in unemployment was driven by measures of liberalization of the international capital movements and adherence to supranational organizations; this created international constraints which were used to cope with or render more difficult the implementation of economic policies aimed at assuring full employment and a redistribution of the social product to wages. In light of these suggestions, how do you judge the present institutional setting of the European Union and what reforms would be needed to improve the wellbeing of the European population?

The contributions to this issue have focused especially on questions 1), 2), 4) and 5). Specific issues are planned for the other questions. A contribution by Professor Pivetti was expected with regard to questions 6) and 7) but unfortunately, not available in time. It will surely contribute to an understanding of the forces shaping the trend in income distribution in the last decades in the main industrialized countries.

Notes

1. Among others, on Garegnani 's life and works see Petri (2000), Palumbo and Trezzini (2011), Ciccone (2012), de Vivo (2012), Eatwell (2012), Kurz (2012), Levrero (2014).

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