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Special Issue

On the political economy of an Australian Patriot and a Cambridge Economist

Editorial to the Special Issue

*Philip Arestis**

This special issue of INTERVENTION. *European Journal of Economics and Economic Policies* is devoted to Geoff Harcourt, self-proclaimed Australian patriot and Cambridge economist. His work is squarely within the Political Economy approach to economics. In 2010 Geoff Harcourt decided to return back to his Australian roots and it is for this reason that the organisers of the 7th international conference, *Developments in Economic Theory and Policy*, Bilbao (Spain), 1–2 July 2010, Department of Applied Economics V, University of the Basque Country, and Cambridge Centre for Economic and Public Policy, University of Cambridge, set up two sessions to celebrate Geoff Harcourt's work. The editors of INTERVENTION very kindly offered to publish the proceedings of the two sessions in this issue. Not only did Geoff Harcourt attend the conference, he also contributed to the sessions. This special issue begins with his contribution.

Geoff Harcourt in his contribution entitled »Post-Keynesian theory, direct action and political involvement« describes his life-long involvement with political economy. Geoff explains how he became involved in the anti-Vietnam War movement in South Australia in early 1967, with all his previous political activities having been through the »usual channels«. Furthermore, he had written his papers on political economy in an impersonal, third person manner as if they were natural scientific reports. Direct action in the anti-war movement, together with reading an article by Noam Chomsky and a book by Hugh Stretton, changed both his attitude to, and practice in, political involvement and the way he taught and wrote post-Keynesian political economy. While he tried always to measure up to dispassionate academic standards in political and academic activities, he accepted that direct action and law-breaking were possibilities if other more »within the law« processes were proving ineffective; and the issues concerned were socially fundamental. Geoff also thought that personal values had to be made explicit in teaching and writing. He took Michal Kalecki as an ideal role model for this. While Geoff continued to use technical analysis, he tried

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not to be technocratic in presenting arguments. He has always tried to unearth underlying motivations – social, philosophical, political – in the issues he analysed. This contribution is no exception to this rule.

Philip Arestis and Malcolm Sawyer in their contribution »The economic policies of the political economy of the Australian Patriot and Cambridge Economist« begin by making the point that Geoff Harcourt has been a thoroughgoing Keynesian political economist, committed to the achievement of sustainable (environmental and otherwise) and equitable (nationally and internationally) economic development and growth, and full employment of the available labour force. Achieving such an objective would require, *inter alia*, the maintenance of a high level of aggregate demand consistent with full employment of labour, and the provision of sufficient productive capacity to enable that full employment. Sufficient in this context should be interpreted in terms of quantity, quality and geographical distribution. In this contribution the ways in which fiscal policy should be used to sustain high levels of aggregate demand, necessary though not sufficient for full employment, are explored. Arestis and Sawyer then argue that monetary policy should be directed towards financial stability, and that fiscal and monetary policies should be coordinated in pursuit of macroeconomic stability. Geoff has always been a staunch advocate of incomes policies to contain inflation without resorting to demand deflation. The failure of inflation targeting throughout the globe, where it has been applied, clearly implies an urgent need to develop incomes policies; as such it becomes a very topical policy initiative and should again be on the policy agenda. This is an important dimension of Geoff Harcourt's economic policy prescriptions.

Claudio Sardonì discusses »Incomes policy: Two approaches«, a policy approach very much to the heart of Geoff Harcourt's economic policy toolkits. There exist two approaches to incomes policy: the post-Keynesian (PK) and the New Keynesian (NK). The PK approach is explicitly formulated and proposed. At a certain critical level of output and employment, the expansion of the economy cannot proceed without engendering an inflationary process. To guarantee further growth, it is necessary to implement policies that keep the conflict over income distribution under control. The NK approach to income distribution is not explicitly formulated. It is, so to speak, hidden behind the central bank's anti-inflationary stance. Also in this case, there is a critical level of output that cannot be exceeded without inflationary pressures (the so-called »natural equilibrium«). The central bank is given the task of curbing any attempt at modifying the existing income distribution. The task is accomplished by preventing the economy from having higher levels of output and employment. The difference between the two approaches is evident. In the PK approach, keeping inflation under control is not achieved at the cost of preventing a further expansion of the economy; whereas in the NK approach inflation must be controlled by keeping the economy at its »natural equilibrium«. In the paper, the two approaches are illustrated by using a three-equation macroeconomic model, which makes it easy to point out their differences in terms of analysis, policy and social costs.

John McCombie's contribution turns to Geoff Harcourt's beloved » »Cantabrigian Economics« and the aggregate production function«. The late 1960s and early 1970s saw

a paradigmatic crisis in economics. In particular, the aggregate production function was shown to be theoretically suspect. Not only was Geoff Harcourt the most well-known commentator on this debate but also an innovative contributor. At that time, an alternative to the neoclassical hegemony seemed to be emerging in the form of 'Cambridgian Economics'. But it was not to be the case. While the legacy of Cambridge UK economics lingers on as part of the post-Keynesian paradigm, the challenge it posed petered out. This contribution examines the reasons why this was so in spite of the outcome of the Cambridge capital controversies. One reason was the instrumental justification that the aggregate production function gave good statistical fits. Some empirical evidence is presented that illustrates this point. Nevertheless, there are reasons why this outcome necessarily *must* be the case and why statistical estimates cannot reveal anything about the underlying technology of the economy. The paper presents a simple exposition of this and likewise examines why this argument has been so widely ignored.

In her contribution 'On Sraffa, post-Keynesian theories of pricing and capitalist competition: Some observations', Stephanie Blankenburg further explores an area of earlier research collaboration with Geoff Harcourt, namely the relevance of the 1920s 'cost controversy' for contemporary economic theory. Whereas their joint research had focused on implications of some results of this controversy for the New Endogenous Growth Theory, Stephanie Blankenburg here extends the analysis to Sraffian and post-Keynesian approaches to price formation and industry competition, including Geoff Harcourt and Peter Keynon's well-known contribution on 'Pricing and investment decision', published in 1976. At the heart of the 1920s 'cost controversy' was the question of whether a general theory of prices could be reconciled with that of growth and accumulation. Blankenburg argues that, subsequently, both neoclassical general equilibrium theory, as well as Sraffian gravitation analysis, have encountered formidable problems in developing a 'general theory of everything' that retains explanatory power. The *a priori* commitment of neoclassical theory to a symmetric theory of exchange and production makes it difficult to see how the impasses encountered could be overcome. By contrast, on the heterodox side of the argument, Blankenburg suggests that a rapprochement of post-Keynesian pricing theory with the objectivist foundations of Sraffa's own analysis, and in particular with classical notions of competition, could be helpful to develop a more empirically relevant heterodox theory of contemporary corporate capitalism and competition. Blankenburg briefly traces arguments that combine Sraffian with post-Keynesian aspects of the analysis of capitalist competition and price-formation in the work of Paolo Sylos Labini.

Lilia Costabile in 'International capital movements, speculation, and the 'conservation of saving' principle. A 'Harcourtian' interpretation of global imbalances and the global crisis', brings together several points made by Geoff Harcourt concerning the macroeconomics of open economies, international capital movements and speculation. Costabile presents a simple Keynesian model illustrating the workings of two economies, 'Home' and 'RoW', which are related through both trade and capital flows. The model provides a useful framework for examining the relationship between income levels in the two countries, and validates Geoff's recommendation for internationally co-ordinated expansionary policies

in order to re-establish full employment on a world scale. As for the role played by financial flows in generating international imbalances, the model shows that the main factor is not so much the level of RoW's residents savings *per se* (as in the 'savings glut' hypothesis), as the willingness of foreigners to hold the debt of the deficit country in their portfolios. Costabile provides an explanation for the large current account deficit of the US and the global crisis based upon the role of the dollar as the world currency, which allowed the US to run a persistent current account deficit, and also favoured some 'hot money' flows back into the US. Consequently, the paper provides a nice justification for Harcourt's 'modest proposal' for a tax on speculative transactions, akin to the Tobin tax.

We are extremely grateful to the organisers of the 7th international conference, *Developments in Economic Theory and Policy*, Department of Applied Economics V, University of the Basque Country, and Cambridge Centre for Economic and Public Policy, University of Cambridge, for the two greatly enjoyable and successful special sessions, and to the editors of INTERVENTION. *European Journal of Economics and Economic Policies* for being so helpful and generous in providing the space in their journal to celebrate Geoff Harcourt's enormous, significant and original contributions to political economy. Finally, we wish to congratulate Geoff Harcourt on his very well-deserved 'Veblen-Commons' award, given by the Association for Evolutionary Economics (AFEE), which has coincided with the period between the time of the conference in Bilbao in July 2010 and the decision to devote this issue of the journal to Geoff's work.