Preface

Alessandro Vercelli

I first got in touch with the set of papers collected in this volume in quality of chairperson of the session with the same name held in Trento (Storep, June 2010). The presentations and the ensuing debate were extremely lively and stimulating. The unusual sense of excitement that spread from the speakers to the audience (particularly numerous and unusually concerned with the themes debated) came from that rare state of mind that is experienced when one perceives a rich correspondence between theory and policy issues that may lead to new theoretical and practical solutions. These feelings led many of us in the audience to suggest the joint publication of the essays in a academic journal or a collected volume. I am particularly glad that the outgrowth of this memorable session has eventually found a common outlet in a volume that deserves visibility and attention from anyone interested in the future of a discipline in deep crisis interacting perversely with an economy in persistent depression.

How can we explain the sense of excitement mentioned above? In this short foreword I will limit myself to emphasize three reasons that I believe to be particularly significant.

The first reason is the discrete charm of pluralism in economics that unfortunately has been recently misunderstood and denigrated. In the last thirty years or so pluralism has progressively declined in economics, especially in macroeconomics, opening the way to a myopic consensus in theory and policy that has contributed to the current catastrophic crisis. A science cannot thrive without pluralism because a lively and unbounded critical attitude is necessary for progress. This is particularly true in any social science, including economics, where different views are a necessary precondition of a healthy critical attitude, but it is also, more in general, an obvious precondition of democracy itself. What is seen as evolution from the point of view of the ruling vested interests may imply a devastating involution for the well-being of the majority of citizens. The imposition of a unique point of view in theory and policy through mass media and other recent sophisticated methods (such as the existing bibliometric criteria) may lead to an unchallenged process of involution that will be eventually recognized as such when it is too late. Minorities have to be defended with great energy not only in politics and in corporate law, but also in the cultural field and in science, in social sciences in particular. The same arguments that underlie the defence of biodiversity should recommend the defence of cultural diversity and pluralism in science. This objective is so important that we should even explore the possibility of so far untried defensive measures. For example, though affirmative actions are very controversial, a well-calibrated version of them should not be excluded even in economic departments, in editorial boards and in competitive evaluations, to counteract the systematic expulsion of non-orthodox economists from the departments of economics. In addition, in order to consolidate pluralism, we have to overcome a further obstacle. Though pluralism is often advocated by heterodox schools as a defensive argument against orthodox economics, it is often inconsistently practiced between and within them. This is a deleterious mistake that undermines the credibility of its advocacy by heterodox schools. This reproach, however, cannot be levelled against the authors of this collection of papers since they do not pretend to preach a new orthodoxy, or to defend an old one, but on the contrary try hard to find significant bridges between different schools of thought rather than to excavate new fratricidal chasms.

Pluralism is a guarantee that an evolutionary process does not degenerate in a misleading direction that may be corrected or redirected only at extremely high costs. However, I wish to emphasize that the defence of pluralism should not be confused with a relativistic attitude. The respect for different paradigms and an attitude open to a constructive dialogue with them do not imply that, given a problem to be understood and solved, we should believe that "anything goes". On the contrary, we should feel authorized, indeed compelled, to choose the most promising approach that fits best the nature of the problem and looks more promising for its solution. In the rest of my sort foreword I want to focus on the contents of the economic paradigm underlying this collection of essays.

The second general reason of praise for this collection of essays refers to the promising evolution of the school to which the authors like to reconnect their contributions. The "monetary theory of production" (henceforth MTP) is a label that identifies a "species" of the heterodox macroeconomics "ecology". I had the privilege of observing the development of this research programme in the early 1980s by participating actively in the seminar directed by Augusto Graziani in Naples. It was the period of its rooting in the insights of great predecessors: the Marx who provided an unrivalled diachronic analysis of the evolution of the monetary forms of circulation (first two sections of the first volume of The Capital) and the ensuing synchronic analysis of the reproduction of capital (in the second volume), the Wicksell, who highlighted the cumulative process further extended by his followers (Myrdal, Lindhal, Ohlin), the Schumpeter who realizes the crucial role of money in determining the metamorphosis of the circular flow of money into a process of development characterized by creative destruction, the Keynes of the General Theory re-read in the light of the disequilibrium method of the Treatise of Money, and so on. Being so thoroughly rooted into the solid terrain of history of economic thought, the tree of the MTP was destined to thrive. In the second stage of its development Graziani introduced a fundamental fertilizer: the rigorous study of the quantitative conditions of conservation and increment of value through the sequences that characterize a given form of circulation of capital (what came to be called "circuit theory"). The conference of Nice in 1984 (the proceedings of which have been published in 1985) was an excellent occasion to consolidate the results obtained in the first stage and in the early steps of the second stage of the seminar.

Unfortunately, after this exhilarating and highly formative experience, personal constraints interrupted my attendance to the seminar so that I continued to pursue similar objectives by treading my own path. However, my direct experience of the early stages of this high-level laboratory was sufficiently deep to corroborate my belief that this research programme was one of the most serious attempts at getting out of the deep crisis of mainstream Keynesian economics ("Neoclassical Synthesis") which had burst in the 1970s, in a progressive direction (progressive from the point of view of methodology, policy and politics).

The tree continued to grow branching in different directions while interconnecting with parallel research programmes (first of all the kindred French school giving birth to the so-called "Italo-French school of monetary circuit"). However it cannot be denied that also in this case of MTP, as with analogous research programmes in other countries, the devastating success of the new classical economics promoted by Lucas and his followers since the early 1970s transformed the environment of macroeconomic research in one progressively inhospitable to a tree producing fruits of a different variety. Notwithstanding that, the research programme of MTP continued to be successfully carried on by its founding fathers (prominently in Italy by Graziani himself) and many brave young researchers. I am particularly impressed by the courage and energy exhibited by the latter while pursuing in the early stages of their career a research programme going uncompromisingly against the stream. This shows a deep and unfailing scientific and political passion that is the salt of scientific research and social concern.

After a partial eclipse of the research programme in the late 1990s and early 2000s this collection of essay is an eloquent proof of a new blooming season. We could say with Marx "well dug, old mole". However, this welcome revival has been propped up also by the persisting, and so far intractable, crisis that has been haunting the world economy since 2007, especially in Europe and in the US.

The inability of mainstream macroeconomics to predict the crisis and to control it with appropriate policies is all too evident. Mainstream macroeconomics is not a potential solution of the deep ongoing crisis but is one of its crucial determinants. We should struggle to free our mind of its pernicious influence.

The reasons of its impotence are strictly related to the axioms that the MTP has openly rejected. Let us mention first of all the "neutrality of money" postulate and the related "classical dichotomy" between the monetary and the real system that are rejected by the MTP as is clear already from its name. The ongoing crisis has clearly shown to what degree the monetary and financial aspects of the economy are deeply intertwined with its real aspects. Second, the unbounded rationality of new classical agents is hardly consistent with the recurrent waves of panic and the strong uncertainty affecting the decisions of agents and policy authorities. Third the celebrated efficiency of financial markets has been ridiculed by the systematic inability, explicitly recognised by both practitioners and policy authorities, of evaluating the risk associated to most derivatives and structured securities. Fourth, the crucial assumption that all the agents are price-takers is in blatant contradiction with the systematic manipulation of markets by a few powerful and visible hands (the recent discovery of the self-serving management by prominent multinational banks of crucial financial rates such as Libor and Euribor affecting financial contracts involving hundreds of trillions of dollars is just one of many obnoxious examples). This implies that we have to study the power relations linking the decision makers moving the visible hands. And this leads the MTP to study the hierarchical interactions between the social classes of a capitalistic system and their evolution through time. This is done through a systematic analysis of the relationship between the process of economic reproduction and the functional distribution of income. A crucial contribution of the school is a significant clarification of the neglected link between finance and the distribution of income that has played a crucial role in originating, propagating and deteriorating the ongoing crisis.

More in general the crucial axiom of mainstream macroeconomics that the economy is in persistent full employment equilibrium nowadays looks patently absurd to every one but those who underwent a long treatment of brain washing by orthodox economics. This explains by itself the inability of mainstream macroeconomics to provide the required etiology, prevention and therapy for the economic and financial illnesses. It is a sort of social medical science without a pathology, as it exhausts its resources in a (questionable) physiology that by its own nature cannot guide the choice of sound therapies. In particular the assumption of equilibrium prevents the analysis of the time sequences that characterize the propagation of economic impulses originated not only by unexpected exogenous shocks but also by policy interventions. This inhibits a thorough analysis of financial contagion that is a crucial causal factor operating in the ongoing crisis. Analogously, it precludes a serious investigation of the income-expenditure propagation sequences activated by measures of fiscal policy in different circumstances, which unduly biases the policy choices in favour of austerity policies.

By abandoning the weakest axioms of mainstream economics (including those mentioned above), the MTP is in the position of working out powerful potential instruments, not only for a better physiology of a financialised capitalist economy, but also for a much-needed pathology able to support the necessary therapies.

At the same time, we should be aware that by forsaking the simplifying axioms of mainstream macroeconomics we have to pay significant costs. The greater complexity of the adopted paradigm prevents the use of simple formalizations and exposes the contributions to criticisms of implicit theorizing and insufficient rigour. Implicit theorizing, however, is a typical criticism levelled against innovative paradigms that, not by chance, has hit in the past many intellectual leaders such as Keynes and Minsky (in the opinion, respectively, of Leontiev and Tobin). History of science shows that a new paradigm requires many generations of scholars to be expressed in a fully rigorous and explicit theory (general equilibrium theory, that provides the allegedly necessary microfoundations to mainstream macroeconomics, is a case in point); the correct response is thus that of multiplying the efforts to speed-up the full development of a new promising paradigm such as the MTP. As for rigour, it should always be a polar star of any researcher; however, when there is a trade-off between rigour and relevance we should always seek the correct balance. A lively and fruitful pursuit of truth is always better than rigor mortis. In any case this collection of essays shows the degree of maturity already reached by the MTP which succeeds in connecting in a fruitful way theoretical and methodological issues, model building, and policy insights.

1. New Research Perspectives in the Monetary Theory of Production: an Introduction

Stefano Lucarelli and Marco Passarella•

Abstract: The Monetary Theory of Production (MTP) is the landing place of a composite set of research fields of monetary macroeconomics. It was mainly pursued by French and Italian authors in the mid-1970s, and it reached a more "developed" stage during the subsequent decades. Nowadays, the MTP presents a noteworthy degree of resemblance to the current Post Keynesian economics and other "radical" approaches. The purpose of this work is to introduce the reader to the recent developments in the Italian heterodox literature, showing that the MTP is still a vital approach among the new generations of non-mainstream economists.

Keywords: History of Macroeconomics; Economic Methodology; Current Heterodox Approaches; Post Keynesian Aggregative Models

JEL Classification: B22, B41, B50, E12

1. Monetary Theories of Production

The Monetary Theory of Production (MTP hereafter) is the landing place of a composite set of research fields of monetary economics. It was mainly pursued by French and Italian authors, such as Alain Barrère, Augusto Graziani, Alain Parguez and Frédéric Poulon, in the mid-1970s, and it reached a more "developed" stage during the subsequent decades[1].

• We are grateful to Hervé Baron for his precious support, to Paul Hudson for his suggestions, to Annina Kaltenbrunner for her linguistic assistance, and to Ariel Luis Wirkierman for his technical assistance. We also would like to thank the discussants (Giancarlo Bertocco, Elisabetta De Antoni, Giorgio Gattei and Alessandro Vercelli) who animated the special session on MTP at the VII Annual Conference of the *Storep*, on June 2010. Finally, we must sincerely address our thanks to the numerous anonymous referees who gave their support to the authors along several rounds of accurate revision. The usual disclaimer applies.

[1] See Barrère (1979, 1990), Graziani (1977b, 1984a, 1989, 1994, 2003), Parguez (1975, 1996, 2001) and Poulon (1982). The "Monetary Theory of Production" was the title of the early project of the *General Theory* dating back to 1932. Afterwards, Keynes used the same title for both his Cambridge courses of monetary economics (1932-33, 1933-34) and in a brief article that was published in a *Festschrift* for the German economist Arthur Spiethoff. Finally, notice that in this contribution we refer specifically to the Franco-Italian approach to the Monetary Theory of Production, also known as the Theory of the Monetary Circuit or the Circulation Approach. For a comprehensive survey of the modern MTP

On the theoretical plan, the MTP deals with a rediscovery of the analysis of capitalist circulation contained in the second volume of *Das Kapital* [*Capital*] (1885) of Karl Marx. The very Marxian conception of the economic system, which is regarded as a monetary economy of production, indeed shows a considerable degree of affinity with a set of heterodox monetary theories of the twentieth-century (see Messori 1983). We refer to the "hidden" line of studies which stretches from *Geldzins und Guterpreise* [*Interest and Prices*] (1898) of Knut Wicksell to *Theorie der wirtschaftlichen Entwicklung [The Theory of Economic Development]* (1911) of John Alois Schumpeter, and then to the *Treatise on Money* (1930) of John Maynard Keynes. There are also strong ties between the MTP and the Cambridge School of Keynesian Economics[2], namely which refers to the direct pupils of Keynes (i.e. Richard Kahn, Nicholas Kaldor and Joan Robinson) and to Michał Kalecki[3]. Yet, the early attempt to provide a general macro-monetary framework which was alternative to the theory of loanable funds and the linked mainstream (simultaneous general equilibrium) model must be ascribed to the seminal work of some French scholars, notably, Jaques Le Bourva and Bernard Schmitt[4].

Nowadays, the MTP presents a noteworthy degree of resemblance to (and consistency with) the current Post Keynesian economics and other "radical" approaches[5]. As for the first group, we have to mention those

approach, we refer the reader to: Deleplace and Nell (1996); Rochon and Vernengo (2001); Arena and Salvadori (2004); Fontana and Realfonzo (2005); Arestis and Sawyer (2006); Ponsot and Rossi (2009).

[2] The definition derives from Pasinetti (2005) and includes those authors who are usually known as the "English" (or "Anglo-Italian") Post Keynesians, based in Cambridge, England. English Post Keynesians were interested especially in the analysis of production, distribution and economic development. The adjective "English" is used in order to distinguish them from the so-called "American" Post Keynesians, who are interested mainly in the analysis of money and finance.

[3] We have to mention also the Italian economists who came to be appointed to the academic staff of Cambridge, notably, Piero Sraffa, Luigi Pasinetti and Pierangelo Garegnani.

[4] See mainly Le Bourva (1962) and Schmitt (1960, 1972, 1975, 1984). In the wake of the previously mentioned founding fathers of the French-Italian approach to the MTP (which also includes the so-called "Theory of money emissions" or "Quantum theory of money"), there is a noteworthy number of scholars from France (Richard Arena, Claude Gnos and Elie Sadigh), Canada (Marc Lavoie, Luois-Philippe Rochon and Mario Seccareccia), Switzerland (Alvaro Cencini and Sergio Rossi), and Italy (notably, the scholars who attended the Seminar on the Monetary Theory coordinated by Augusto Graziani at the Economics Department of the University "Federico II" of Naples. – On this point, see also section 2).

[5] Significantly, a number of authors refers to the French-Italian MTP as the "Post Keynesian Circuit approach" (see Halevi and Taouil 2002) or the "French and Italian Post

English-speaking "non-neoclassical" Keynesian authors who have stressed the basic role of money, credit and finance within the capitalistic economies. These authors are known in the literature as the "'American' Post Keynesians". Within this group we can further distinguish between the founding fathers (notably, Paul Davidson, Alfred Eichner, Hyman Minsky, Basil Moore, Joseph Steindl and Sidney Weintraub) and the new generations of Post Keynesian scholars who, at one time or another, have been based at the *Levy Institute of Economics* of New York, the *New School University* of New York and the University of Missouri-Kansas City[6]. Particular mention should be made to Wynne Godley, Marc Lavoie and Randall Wray. Godley can be considered as the father of the modern "stock-flow consistent" (SFC) approach to macroeconomic modeling. Godley's name is associated with a specific set of dynamic monetary sectoral models which are related to the "New Cambridge" theories of the 1970s and which, in the last few years, have been developed by a number of other heterodox scholars[7]. These simulation models (which, along with the so-called "agent-based models", represent the "frontier" of the current *non-mainstream* formal modeling) consider with the effects of financial stocks on income flows, and represent the role of the banking system explicitly. Lavoie is the author who, more than anyone else, has tried to combine the different approaches to the MTP in a united and consistent theoretical blueprint[8]. Finally, Wray's name is associated with the so-called "Modern Money Theory" (MMT) which, in a sense, can be regarded as the circuit-theory of a pure state-issued fiat money economy of production[9].

Notice also that over the past few years the MTP has been cross-bred with analytical elements from other radical approaches. More precisely, the French-Italian approach to the MTP has been improved with inputs

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Keynesian school" (see Godley and Lavoie 2007a). For an opposite opinion, see Cavalieri (2003).

[6] In this regard, we have to mention Steven Fazzari, James Galbraith, Jan Kregel, Dimitri Papadimitriou, Éric Tymoigne and Randall Wray. Other authors who can be considered very close to the MTP theory – although with relevant differences between them – are Philip Arestis, Victoria Chick, Steve Keen, Malcolm Sawyer, Lance Taylor and Jan Toporowski. As for the Italian scholars, we need to stress the contributions of Domenico Delli Gatti, Elisabetta De Antoni, Pietro Enrico Ferri, Mauro Gallegati, Serena Sordi, Anna Maria Variato, Alessandro Vercelli, and Gennaro Zezza.

[7] See mainly: Godley (1996, 1997, 1999a, 1999b); Godley and Shaikh (2002); Lavoie and Godley (2001-02); Godley and Lavoie (2007a, 2007b). For an exhaustive historical reconstruction of the SFC approach, see Dos Santos (2006).

[8] See, above all, Lavoie (2006).

[9] See mainly Wray (1998).

from the Marxian labour theory of value and money[10], the Sraffian (or surplus) approach[11], the current Post Keynesian stock-flow consistent modeling[12], the Schumpeterian theory of technological change[13] and Minsky's theory of financial instability[14].

2. Anatomy of the Italian MTP Approach: the Theory of Monetary Circuit

As we have mentioned, the MTP approach may be regarded as a part of a wider and more heterogeneous research program. Although its roots can be traced back to a single research line mainly pursued in the 1970s, the MTP has branched out in three different directions: i. the attempt to develop a new analytical framework aiming to study the working of real-world monetary economies of production; ii. the recovery of a number of non-mainstream seminal contributions coming from great authors of the past; iii. the will to contribute to the coeval economic policy debate. The fruitful discussion among French and Italian scholars has contributed to further multiplying the MTP lines of research during the 1980s.

In this regard, the scholar who can be regarded as the founding-father of the Italian approach to the MTP is Augusto Graziani, who has influenced two generations of Italian economists[15]. The first generation is composed primarily by the participants of the Seminar on the Monetary Theory which was held at the Economics Department of the University "Federico II" of Naples. The seminar, which started at the end of 1970s and finished at the end of 1980s (and which was funded by the Italian National Research Council, CNR 106320/108112122), was coordinated by Graziani himself. Graziani refers explicitly to that experience in a footnote of *Moneta senza crisi* [*Money without crisis*] (1984a)[16]. Among the participants, he mentions: Adriano Giannola, Marcello Messori, Serena Di Gaspare, Ferruccio Maggiora, Guglielmo Chiodi and Luca Meldolesi. However, the effective participants were more, as it is demonstrated by the volume of the scientific production linked to the Naples' research group. The early "circuitist" contribution of Graziani is his introduction to the book of Roberto Convenevole, *Processo*

[10] See mainly: Bellofiore (1989, 2002, 2005); Bellofiore and Realfonzo (1997); Bellofiore et al. (2000); Bellofiore and Passarella (2009).

[11] See Brancaccio (2005, 2008), and Brancaccio and Fontana (2012).

[12] See Zezza (2004, 2012), Lavoie (2004), and Passarella (2012b).

[13] See Fumagalli (1995), and Fumagalli and Lucarelli (2008, 2011, 2012).

[14] See Passarella (2012a).

[15] Unfortunately, his most influential contributions have not been translated in English. See Graziani (1977a, 1977c, 1982, 1984a).

[16] Notice that an abridged version of that paper has been published in 1983.

inflazionistico e redistribuzione del reddito [*Inflationist process and income redistribution*] (1977). It is in that work that Graziani shows, for the first time, how the creation of credit-money affects the income distribution in favor of the profit-earners (i.e. firms). Graziani is also the author of an introductive essay to the book of Lilia Costabile, *Malthus. Sviluppo e ristagno della produzione capitalistica* [*Malthus. Development and stagnation of the capitalist production*] (1980). The main argument of that essay is that within a monetary economy production the unproductive expenditure of *rentiers* should not be regarded as a deduction from the income of "productive" classes, but as a functional element to the realization of profits.

Both, the theoretical cornerstones and the open research questions of the Italian approach to the MTP are clearly outlined in Graziani (1984a). In short, the basic features of the Italian MTP approach are as follows: i. a hierarchic relationship between the different classes of a capitalistic socio-economic system; ii. banks create liquidity *ex nihilo* to finance firms' activity, whereas savers (i.e. wage-earners) cannot obtain any "initial" finance and hence they can affect neither the volume nor the composition of the production; iii. the simultaneous general equilibrium model is rejected in favor of a sequential analysis where the crisis is always a possible final state of the system; iv. the accumulation of capital is the result of firms' autonomous decisions; v. the "marginalist" theory of distribution is rejected in favor of a "conflicting" vision of income distribution that takes into account the historically-determined relationships between the social classes.

Except for Graziani's path-breaking contributions, the early Italian academic works on the theory of monetary circuit have been published in the 1980s[17]. Yet, since the 1974 the issue of the monetary control over the living labor has been the core of a group of non-academic works of a group of scholars who put themselves "at the service of the movement". We refer to the workgroup on money centered around the Italian journal *Primo Maggio*. That workgroup, which is linked to the early phase of the Italian *operaismo* [workerism], aimed at changing the social role of intellectuals by innovating the methodology of social sciences[18]. It is noteworthy that Marcello Messori, Lapo Berti and Serena Di Gaspare, who shared the experience of *Primo Maggio*, were invited by Graziani to participate at the Naples' Seminar. Another Italian journal in which some

[17] Another noteworthy exception is *Economia e moneta* [*Economy and money*] (1975) of Bruno Trezza. In that work Trezza prefigured a large part of the issues which have been developed by Graziani and his group in the 1980s.

[18] See Lucarelli (2012).

important articles on the MTP have been published is *Studi Economici*, especially in the period 1983-1988. However, it is the book *Moneta e produzione* [*Money and production*] (1988), edited by Marcello Messori, that can be regarded as the landing place of the work of the Naples' Seminar. More precisely, Messori's book collects a selection of the contributions discussed at the International Conference of Naples, in February 1985. Participants were not only the Italian scholars who attended the Naples' Seminar (Augusto Graziani, Riccardo Bellofiore, Lilia Costabile, Marcello Messori, Francesco Farina and Adriano Giannola), but also the Belgian, French and Swiss scholars involved in both the MTP approach and the analysis of the link between money, disequilibrium and uncertainty (Richard Arena, Carlo Benetti, Jean Cartelier, Michel De Vroey, André Orléan, Bernard Schmitt and Élie Sadigh), and some of the American Post Keynesians (notably, Jan Kregel).

The Nice Conference in 1984 was another relevant opportunity for the discussion among the French and the Italian MTP authors. The book *Production, circulation et monnaie* [*Production, circulation and money*] (1985), edited by Arena and Graziani with a postface by Jan Kregel, was published with a collection of essays of, among others, Riccardo Bellofiore, Francesco Farina, Marcello Messori, and Alessandro Vercelli. With regard to the Italian reception of the international debate on the monetary circuit, it is important to recall the special issue of the journal *Metamorfosi* (No. 5, 1987) which includes contributions of Lavoie, Benetti and Cartelier. For the same reason, it is important to stress the ten-issue series (from April 1984 to February-March 1996) "Monnaie et Production" [Money and Production] hosted by the French journal *Economie et Societés* (edited by André Larceneux, Jacques Leonard and Alain Parguez)[1]. Finally, together with some participants of the Naples' Seminar, Graziani started and directed, for the ESI editor, a book series dealing with the monetary economic theory. More specifically, the series contains a set of contributions of authors who, during the first few decades of the twentieth century, thwarted the traditional quantitative theory of money[2].

During the 1990s, the spaces which the Italian scientific journals devoted to the theory of monetary circuit and other MTP approaches have been gradually reduced. However, several insights of the Italian MTP

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[1] Notice that Graziani published five articles in the issues number 2, 3, 4, 6 and 7, respectively; Messori published one article in the issue number 3.

[2] See Tugan-Baranovskij (1987), Hayek (1988), Hahn (1990), Simiand (1991), Fanno (1992), Robertson (1993), Schumpeter (1996), and Mises (1999).

approach have been recovered in a number of recent contributions of young heterodox scholars. Furthermore, in the last few years the Italian MTP approach has been increasingly (though implicitly) employed in many non-conventional analyses of the causes of the fragility of the European Monetary Union[21].

3. Aim and structure of the book

The purpose of this book is to offer a picture of the recent developments in the Italian MTP literature. To this end, we publish eight contributions of ten young heterodox economists, a part of whom participated in the special session on the MTP at the *VII Storep Conference*, University of Trento (Italy), on June 2010. Notice that, far from pretending to be exhaustive, the collection of papers presented here aims to provide the reader with some of the new insights into the link between the MTP and the other current heterodox approaches, as well as to suggest the possibility of using these kinds of models in the analysis of the effects of alternative economic policies. From a methodological point of view, most of the selected papers follow a "formal", although not over-complicated, approach to the economic analysis. As for the specific contents, the volume is organized as follows.

Chapter 2, "The Legacy of Augusto Graziani and Luigi Lodovico Pasinetti in the Post Keynesian Research Tradition", edited by Andrea Pacella and Guido Tortorella Esposito, detects a convergence between Graziani and Pasinetti's research programs, as both authors adopt a historical realistic methodology. The two authors argue that, although there are some relevant differences concerning the reading of Keynes' theory of endogenous money, both their research agendas are integral parts of the Post-Keynesian school.

Chapter 3, written by Emiliano Brancaccio and Domenico Suppa, and entitled "Taylor Rule and Solvency Rule in a Monetary Scheme of Reproduction", provides an improvement of the model of the "monetary theory of reproduction" outlined in Brancaccio (2008)[22]. It does so on the basis of the analysis of the role of the central banker provided in Brancaccio and Fontana (2012). This allows Brancacio and Suppa to examine the possible impact of the so-called "solvency rule" on the financial positions of each sector within an artificial monetary economy of production.

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[21] On that point, see (Graziani 1998), in particular chapters 8 and 9.

[22] Brancaccio (2008) provides a link between the Circulation approach and the different analytical perspective embedded in the notion of (physical) "reproduction" of the economic system which is embraced by the surplus approach practitioners.

Chapter 4, written by Guglielmo Forges Davanzati, and entitled "Division of Labour and Endogenous Labour Productivity in a Profit-Led Growth Regime", aims to analyze the effects of the dynamics of labour productivity in a profit-led regime. The author argues that low wage policies, as well as flexible labor norms, do not affect the economy positively, as is usually claimed by mainstream economists. On the contrary, those policies, by reducing effective demand, have a negative effect on labour productivity. This, in turn, entails a decrease in total output and employment.

Chapter 5, edited by Stefano Lucarelli, and entitled "Credit Creation as Monetary Complement or Innovation. A Schumpeterian Approach to Monetary Theory of Production" aims to cross-breed the Schumpeterian economic development theory with inputs from the current Post Keynesian approaches. More precisely, the different phases of Schumpeterian economic development are described through a set of accounting matrices, in line with the Godley's New Cambridge modeling and the Italian Circulation approach.

Chapter 6, edited by Alessandro Caiani, Antoine Godin and Stefano Lucarelli, and entitled "Why Do We Have Business Cycles? A Stock Flow Consistent Explanation", contains a stock-flow coherent analysis of the "innovation-based" business cycles, in line with both Schumpeter and the New Cambridge modeling. Unlike old-fashioned "real business cycle" models, the new model proposed by the three authors is able to deal with the role of "finance" in the process of technological change.

Chapter 7, edited by Marco Passarella, and entitled "A Re-Formulation of Minsky's 'Two-Price Model'", aims to improve Minsky's "two-price theory" by modeling an artificial, pure credit, closed capitalist economy in which production firms are split into a sector producing capital goods and a sector producing consumer goods. The result is a new model which allows Passarella to retrieve and improve Minsky's analysis of endogenous financial fragility and economic instability of modern capitalist economies.

Finally, chapter 8, edited by Paolo Di Lorenzo, and entitled "Tax evasion in a monetary circuit model", aims to show that, whereas tax-evasion inevitably leads to a deficit in the government's budget, this deficit is not the result of "over-spending" by the government sector. Rather, the government deficit must be regarded as the product of the degree of social power of firms (and banks) and, hence, of the resulting institutional structure.

In this regard it is important to note that the emphasis on the social power of firms, linked to their exclusive right to borrow from banks in order to purchase the labour-force's services and to start the production process, is one of the key features of the MTP approach. Notice also that the MTP, far from being a set of ready-made answers to economic questions, needs to be further developed and continuously re-thought in the light of the current capitalist phase. The point is that the MTP is neither a new macroeconomic doctrine nor a complete analytical model. It is, rather, a macro-social framework allowing its practitioners to define the conditions of reproduction of a monetary economy of production. The analytical power of the MTP comes from the very possibility of isolating some simple relationships among the main macroeconomic variables, regardless of the individual behavioral functions. We think that this should be the starting point of every macroeconomic model aiming to overcome the analytical failures, and the ideological biases, of mainstream economics.