

American Economic Association

Growth and Income Distribution: Essays in Economic Theory. by Luigi L. Pasinetti

Review by: Joseph E. Stiglitz

Journal of Economic Literature, Vol. 13, No. 4 (Dec., 1975), pp. 1327-1328

Published by: [American Economic Association](#)

Stable URL: <http://www.jstor.org/stable/2722306>

Accessed: 03/02/2012 04:17

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at

<http://www.jstor.org/page/info/about/policies/terms.jsp>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.



American Economic Association is collaborating with JSTOR to digitize, preserve and extend access to *Journal of Economic Literature*.

<http://www.jstor.org>

ments in holdings and create perpetual tension among advocates of different patterns of adjustment (a tension which is temporarily relieved by porkbarreling or by direct exercise of political power, but which can never fully be resolved).

Nozick, by contrast, proposes that issues of economic justice be considered in the framework of an *entitlement* theory. Three questions are germane to the entitlement theorist: (1) Did holdings *originate* legitimately (was force or fraud an instrument of their acquisition)? (2) Were holdings *transmitted* to present owners legitimately? (3) If the answer to (1) or (2) is "no," what *restitution* is necessary or appropriate? The focus throughout is on individual claims based in the Rule of (Sidgwickian) Law.

Where is the hope for the poor and suffering under an entitlement scheme? Nozick's answer, though it will strike some readers as quaint and amusing, deserves a careful reading: he looks to the private philanthropy as a liberal, humane, and efficient substitute for the present (coercive, inefficient, and demeaning) arrangements. His discussion exposes the "free rider" issue and answers it with a presumption: that concern and charity are widely distributed sentiments.

The book is not a complete libertarian testament. Private economic institutions have been attacked on grounds of cyclicity, monopoly, and externality, as well as distributive equity; and Nozick's main effort is to answer the latter concern. Much work remains to be done in putting together arguments from first principle about the role of the state *vis-à-vis* those other issues. But it is surely concern for equity rather than efficiency or stability that has impelled the growth of the Labour party in Britain and comparable movements in America: Hobhouse and Tawney, not Keynes, nor Robinson and Chamberlin, nor Pigou, are the scribblers fermenting in the political distillery today. Thus, while incomplete, *Anarchy, state, and utopia* is nonetheless timely, germane, and potentially influential.

Rawls and Nozick in different degrees represent a healthy reaction from the latent totalitarianism of Hobhouse, who perhaps more than any other single person is the creator of present-day statist welfarism. Rawls, in

his lexicographically ordered "two principles of justice" assigns pride of place to liberty (and he goes beyond lip service to a few relatively trivial "civil liberties" in his discussions of the meaning of that term, although classical liberals will find his understanding of rights of property to be deficient). Nozick, as we see, goes all the way back (or forward) in commitment to liberal ideals.

If Keynes correctly appraised the practical impact of political philosophy, the belated interest now seen in Hayek's *Constitution of liberty*, the unambiguous rejection of reflexive egalitarian intervention by Rawls, and the fresh and compelling entitlement theorizing of Nozick combine to offer hope for the future among those who cherish liberty, efficiency, privacy, and charity.

DANIEL ORR

*University of California
San Diego*

Growth and income distribution: Essays in economic theory. By LUIGI L. PASINETTI. New York and London: Cambridge University Press, 1974. Pp. x, 151. \$11.95.

It is curious how, to some economists, showing the historical antecedents of one's thoughts is sometimes viewed as lending an aura of authenticity and credibility to ideas that apparently cannot be verified in a more reputable way. Perhaps this is the reason that Pasinetti has put out this collection of essays.

The collection begins with a mathematical formulation of the Ricardian system, then jumps a hundred years to the Keynesian system ("The economics of effective demand"). This is followed by a chapter on cyclical fluctuations and economic growth and "From Classical to Keynesian economic dynamics." The next chapter is Pasinetti's deservedly celebrated article, "The rate of profit and income distribution in relation to the rate of economic growth." The concluding chapter entitled, "The rate of profit in an expanding economy" is a sequel to that paper and a comment on the debate to which it gave rise.

The essays are not integrated as much as one would have liked; it is as if the juxtaposition of the articles and the occasional use of a label, such as "Keynesian economic dynamics,"

would make self-evident the historical threads. At a few points he has chosen to make the links explicitly, as in the following passage (p. 43):

it is basically the Ricardian method of analysis that Keynes has revived. The most typical indication of this is to be found in the directness with which Keynes proceeds to state his assumptions. Like Ricardo, he is always looking for fundamentals.

Individually, the essays are well-written, and provide good expositions of the viewpoints represented. Some readers may find the models peculiar, or at least overly simplified, and will take exception to particular points raised—but this is an old debate, to which this book adds little new.

Without attempting to protract the debate, let me raise a few questions which in a subsequent revision, might be addressed:

1. Keynes entitled his great work, *The general theory of employment, interest and money*. Was the inclusion of money in the title a mistake? Or was money an essential part of the Keynesian model? If so, is it not strange that a book, claiming to present Keynesian models hardly mentions the word (it does not even merit an entry in the index).

2. Pasinetti claims, “. . . the established economic theory has proceeded for more than a century on the amazingly myopic assumption of no change in technical knowledge” (p. 91). Established theory in Cambridge, England, must be different from established theory elsewhere. But as remarkable as this statement may seem, there is no mention of the subtle and difficult questions involved in measuring the magnitude of technical progress—questions that have been at the center of empirical work on these questions during the past two decades.

3. The distinction between renters and pure capitalists in modern industrial economies does not seem to carry much force; if so, the income of capitalists depends not only on the return to physical capital, but also on the return to land, natural resources, *etc.* But the basic Cambridge equation, that the rate of return on capital is equal to the rate of growth divided by the savings propensity of capitalists, is only true if there is no land, no exhaustible natural resources, *etc.* In a model

allegedly developing out of Ricardo, where land played such a crucial role, isn't it curious that natural resources are never mentioned, let alone their implications for the general theory developed?

4. Pasinetti argues that because in a socialist economy, the savings rate out of profits is unity, all socialist economies will be at the Golden Rule, with the rate of interest equal to the rate of growth. Surely this conclusion should suggest to him that something is wrong with his analysis: this is a strong proposition—why doesn't he attempt to test it? Such a test would clarify whether there is more to this proposition than an accounting identity. Certainly, it would appear that socialist economies would have a choice for growth paths—this result would suggest that in the long run, at least, they do not.

But perhaps we are asking too much of this book. In the established doctrine that I was taught, money, technical progress, natural resources, choices among growth paths, all were central. But an adequate treatment of these issues would have made the analysis more complicated and obfuscated the central points that Pasinetti wishes to raise. The central question is whether the simplistic models of the kind presented here so well capture some of the most important and crucial elements of the process of growth and the determinants of the distribution of income. This, I am afraid, remains a moot question.

JOSEPH E. STIGLITZ

Stanford University

Cost benefit and cost effectiveness: Studies and analysis. Edited by J. N. WOLFE. London: Allen and Unwin, 1973. Pp. 236. £4.50, cloth; £2.85, paper.

This volume contains eleven papers delivered at a conference of British academic and government applied welfare economists held at the Department of Economics of the University of Edinburgh. Professor Wolfe is a member of that department.

The volume is divided into four sections, each containing two or three papers: “Political Economy,” “Theory,” “Fields and Areas,” and “Frontiers.” The first section, which is the