

REVIEW OF SERGIO CESARATTO, *HETERODOX CHALLENGES  
IN ECONOMICS: THEORETICAL ISSUES AND THE CRISIS  
OF THE EUROZONE*, BERLIN: SPRINGER, 2020

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The latest book by Sergio Cesaratto, *Heterodox Challenges in Economics* (Cesaratto 2020) offers an insightful overview on heterodox alternatives to marginalism, focusing on classical economics, Marx, Keynes and Sraffa. Expanding on a previous version of the book (*Sei lezioni di economia*, cfr. Cesaratto 2019), Cesaratto begins by recalling the origins of political economy as a study of wealth and society, with its interdependent classes, property relations, modes of production and distributive conflicts. Against this way of understanding wealth creation and its nexus with politics, stands economics, with its focus on rational individual agents, private incentives, market-based interactions and its alleged political neutrality. As the author correctly observes, the divide between “Political economy” and “Economics” is one between different visions of the world and appropriate analytical tools rather than one between old (read bad) and new (read good) theories. As such it deserves to be understood and presented to readers interested in economic theory and policy.<sup>1</sup>

Based on this methodological premise, the second, third and fourth chapter present the surplus approach, marginalism and the economics of Keynes respectively. Each chapter is organised as an imaginary dialogue between the author and a ‘representative reader’, eager to understand issues ranging from the inverse relationship between the wage and the profit rate

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<sup>1</sup> On the origins of the expression *Political economy*, its relationship with *Economics* in the 19<sup>th</sup> century and its re-emergence with a different meaning in the 1960s see GROENEWEGEN (1991). On the relationship between current interest *Political economy* and methodological/pedagogical pluralism in the field of the social sciences see STILWELL (2019).

to Say's law and the principle of effective demand. True to his didactic intention, the author addresses these issues through verbal arguments, minimal formalization and simple numerical examples. Readers should not be deceived by the apparent simplicity of the arguments set out in the book, nor by the rather informal language used by the author. Simplification serves the purpose of clarification and the text should be understood as a distillate of the author's fruitful research activity and public intellectual engagement.

Cesaratto regards Keynes's critique of the idea that *laissez faire* leads naturally to full employment as part of an incomplete revolution, hesitant to draw the long-run implications of effective demand and money non-neutrality, willing to treat competitive full employment as a limit case encompassed by the *General theory*.<sup>2</sup> Against this compromising attitude and Keynes's lapses, as Joan Robinson called them, Cesaratto advocates a different approach, a synthesis between Keynes and Sraffa's reprise of classical political economy and of the surplus approach.<sup>3</sup>

This synthesis offers the possibility to embed the principle of effective demand in a theory of demand-led growth, accounting for the conflicting nature of distribution, the simultaneous determination of relative prices and wage/profit rates, the non-neutrality of money, the role of external constraints in determining income.<sup>4</sup> Chapter 5 addresses the two latter issues, insisting on the endogenous nature of money in a bank-based economy and on the nexus between monetary/financial conditions, external constraints and accumulation in the spirit of Thirlwall and Kaldor (Caldentey and Vernengo 2019).

Building on his preferred theoretical framework, Cesaratto devotes the last chapters of the book to the genesis of the European Sovereign debt crisis (Lane 2012), to the initial mistakes made by European and national authorities (mainly German and French) in managing it and to the subsequent interventions by the European Central Bank to safeguard the integrity of the Eurozone.

In Cesaratto's analysis, the sovereign debt crisis is the result of structural imbalances between EU members and of policies, which draw inspi-

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<sup>2</sup> On Keynes revolution in historical perspective, see MOGGRIDGE (1986) among others.

<sup>3</sup> On the Keynes-Sraffa macroeconomic synthesis see KREGEL and RONCAGLIA (2020) among others.

<sup>4</sup> As is well known, a country that runs a current account deficit experiences a worsening of its net foreign position, defined as the difference between foreign assets and foreign liabilities. If this condition persists over time, the country will become increasingly dependent on foreign investors and vulnerable to the risk of falling into a debt trap (CESARATTO 2020: 145). Achieving a trade balance reduces this risk but constrains GDP to be (approximately) equal to the ratio between exports and the import/GDP ratio. *Coeteris paribus*, the less competitive/more dependent on imports a country is, the lower this constrained GDP will be.

ration from the marginalist paradigm. At the core of this model, we find Germany with its insistence on productivity, efficiency, quality and its willingness to compress domestic demand, wages and prices in favour of exports. Through fiscal rigour and competition policy, ordo-liberal Germany, together with its Mittel-Europa partners (Austria and the Netherlands in the first place) gains competitiveness at the expense of the countries of the Mediterranean periphery, where productivity languishes, prices and wages rise faster, and fiscal rigour is more difficult to attain. The combination of these factors causes the peripheral countries to run systematic balance of payment deficits which lead external debt vis à vis Germany and other northern European countries to rise.<sup>5</sup>

During the first ten years after the launch of the euro, the willingness of savers and banks in the core countries to buy securities issued by debtors and banks in peripheral countries allowed the Eurozone to prosper and ensured partial convergence of the economically weaker countries towards the German standard. With the 2011 crisis, however, this process came to an abrupt halt, and the most fragile members of the Eurozone fell backwards, in terms of aggregate and per capita income, employment, and public finance parameters.

The interventions deployed by the European Central Bank, led by Mario Draghi, saved the integrity of the Eurozone without significantly affecting the structural causes of its crisis. Cesaratto judges Draghi's pragmatism positively, without falling into hagiography, and finds the criticism of conventional and unconventional measures adopted during his mandate not surprising. These criticisms reflect a fundamental problem that makes Europe impossible to reform: constituent interests and the economic paradigm that inspires them are too strong to break.

A paradigm, which combines belief in the neutrality of money, central bank independence, fiscal conservatism, preference for rule-based economic policies against discretion, strong commitment to protecting competition, both domestically and internationally, and harmonious vision of the distributive process, with labour and capital receiving a remuneration proportional to the contribution that each of them makes to production.

Against this paradigm, Cesaratto insists on the crucial role played by monetary policy, through its influence on interest and exchange rates, on capital accumulation, income, employment, and distribution. Hence the need for monetary authorities to act in concert with fiscal authorities with the aim to protect employment and correcting internal and external mac-

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<sup>5</sup> On Germany as the centre of a new Mitteleuropa, whose existence may pose dangers to the EU itself, see DE CECCO and MARONTA (2013) and CELI *et al.* (2020) among others.

roeconomic imbalances, which may lead to crisis. Competition and free trade are important to the extent that they stimulate innovation and progress, but they do not guarantee efficiency and full employment and may be counter-productive if they exacerbate the distributive conflict.

Central to this alternative view is the concept of social surplus, the foundation of classical economic theory, as developed by Sraffa. Given the output, technology and the level of wages, which depends on the power balance between workers and employers among other factors, income distribution is determined. If profits are used to expand production, increasing the quantity and quality of available jobs and the supply of consumer goods at normal prices, economic welfare increases. If, on the other hand, profits remain inert or fuel sterile speculation, their very existence is jeopardised, unless continuous downward pressure is exerted on wages and the level of domestic demand, exploiting all the opportunities that globalisation and technological progress offer in this direction.

Based on this interpretation, Cesaratto regards the European Monetary Union, with its policies and their theoretical underpinnings, as an instrument created to tame the distributional conflict and preserve the German export-led economic model to the detriment of European workers, whose destiny ends up depending on the international conjuncture and an (increasingly fragile and underfunded) welfare state. This perspective leads Cesaratto to be pessimistic about the future of the Eurozone, faced with the alternative between implosion under the weight of its contradictions and uninspiring downward compromise.

In the face of this bleak vision, there are some elements that can temper pessimism about the future of European integration; elements that remain valid even in the context of a severe criticism of EMU, as it was devised in Maastricht, and of its many shortcomings.

A first reason for optimism, highlighted by many scholars including de Cecco (2010) and more recently Saraceno (2020), concerns the weakening of the export-led German model. Trade tensions, between the US and China and elsewhere, exacerbated by the pandemic crisis, are forcing a reassessment of development models, emphasising the importance of internal demand. This offers progressive forces the opportunity to redirect their political struggle towards achieving new and more advanced goals in terms of economic and social rights, as Celi *et al.* (2020) note at the end of their analysis of the European Union. A second important factor, which offers hope for the future of the EU and the Eurozone, is related to decision to implement the Recovery Fund and to the emergence of many recent proposals to reform European economic governance.

In this context, fresh ideas are needed and a Keynesian optimism to devise new and intelligent ways to push the EU on a new road towards material,

cultural and civil progress. This is one reason, among others, which makes the book by Sergio Cesaratto important for the contribution it gives to the rediscovery of forgotten or misunderstood approaches to economic theory and policy, which can serve as a basis to devise better economic policies.

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