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On Some Aspects of the Ethics of John Maynard Keynes

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I. Introduction

In 1890 John Neville Keynes[1] (1852-1949) [the father of John Maynard Keynes (1883-1946)] wrote that:

> In order to mark off political economy from the physical sciences, it is spoken of sometimes as a moral science, sometimes as a social science. Of these descriptions, the latter is to be preferred. The term moral science is, to begin with, not free from ambiguity. This term is no doubt sometimes used in a broad sense as including all the separate sciences that treat of man in his subjective capacity, that is, as a being who feels, thinks, and wills. But more frequently it is used as a synonym for ethics; and hence to speak of economic science as a moral science is likely to obscure its positive character. (J. N. Keynes, 1890, p. 87)

As to the nature of economic phenomena, John Neville Keynes stresses that they depend on 'free agents', whose behaviour may be modified both by 'legislative interference' *and* by reassessment of their 'moral standards'. And he adds:

> It involves a confusion of thought, however, to suppose that economic phenomena are for the above reason incapable of being studies positively or that in our investigation of them we are bound to pass a judgement upon their moral worth. (J. N. Keynes, 1890, pp. 43-4)

[1] John Neville Keynes, who outlived his son John Maynard, was a fellow of Pembroke College, Cambridge, from 1876 until his death. From 1910 to 1925 he was Registrar of the University of Cambridge. He was a logician and political economist and was initially known for his textbook *Studies and Exercises in Formal Logic* (1884) characterized by a clear exposition and its avoidance of mathematics. He was a pupil of Marshall, and when the latter moved from Balliol College, Oxford, back to a chair at Cambridge, he replaced his mentor for a while in Oxford. History changed his course when he decided to come back to Cambridge: it was there that his son John Maynard was born in 1983. It is widely accepted that John Neville's second book *The Scope and Method of Political Economy* followed Marshall in combining the historical and deductive method in economics.

Hutchison, in his excellent *The Politics and Philosophy of Economics* maintains that it is not clear how much, some 50 years later, John Maynard Keynes follows on his father's footstep. He adds:

> […] Keynes also maintained that 'economics is essentially a moral science and not a natural science. That is to say, it employs introspection and judgements of value' (Keynes, 1973, p. 297). And he added: 'It deals with motives, expectations, psychological uncertainties' (p. 300). (Hutchinson, 1981, p. 71)

For John Maynard Keynes the two major drawbacks of our economic society are the following:[2]

1. its unjust ("inequitable") distribution of income and wealth;
2. its incapacity to provide continuous full-employment.

II. The 'inequitable' distribution of wealth and income

Wealth and income are closely correlated in our economic societies, and they are the main expression of the economic and financial potentiality of individuals, groups, classes as well as societies. We shall consider their distribution in some detail here below.

2.1 The distribution of gross and net labour income

In North America and Western Europe, at the beginning of the twentieth century the top 10% of income earners earned about 50% of total income, while the bottom 30% earned less than 15%. Towards the end of the same century such disparities were less important: about 30% the total gross income was still earned by the top 10% of earners; while the share of the bottom 30% was much higher than hundred years ago. One may add that the redistribution operated by the State has further reduced such great differences. In a modern state about 15 to 20% of total national income is transformed from the rich cohort to the less fortunate ones. This broadly means that the Gini coefficient that is about .35 for gross income has been on average reduce to 0.25-0.28 for net income. There are several reasons for this:

- First any redistribution from rich to poor households automatically leads to an increase in total consumption. Recent enquires (particularly in Italy and Switzerland) show that the average (not marginal) saving rate of high incomes is between 20 and 50%, while low incomes not surprisingly exhibit a negative saving ratio between (sic!) -80% and -20%. Redistribution has therefore the first obvious merit of stimulating, all other things being equal, private consumption. In fact most economic policies of the last fifty years have been based on a rapid growth of private consumption.

- Secondly redistribution is a way of reducing the gap between low incomes and top incomes. A society where this gap is too high cannot be defined as equitable. If 'free market' forces are responsible for an unacceptable level of income differences, the State has the 'moral duty' to reduce the gap between disposable incomes.

- Finally, politicians (especially of developing countries) know only too well that high economic and financial inequalities may lead to political unrest.

[2] See, for instance, Chapter 24 of the *General Theory*, with the title 'Concluding Notes on the Social Philosophy Towards which the General Theory Might Lead', pp. 372-84.

2.2 The distribution of income among professions

Earnings among professions exhibit important (and increasing) differences. As Atkinson (1975, pp. 10-30) points out, for most individuals and families, labour earnings are the most important, if not the only, source of income. Therefore 'a view of the distribution of earned incomes is essential to an understanding of the nature of inequality in any advanced economy' (Atkinson, 1975, p. 17). It is interesting to note that in the early 1970s the 'earning tree' in the U.K. (men only) was as follows:

- 1 for a farm labourer;
- 1.2 for a dustman, chef and postman;
- 1.5, average earnings, for foreman, office supervisor, docker, crane operator, policeman, bus conductor and bricklayer;
- 4 for army colonel, headmaster;
- between 5 and 8 for university professor, hospital consultant, permanent under secretary in civil service;
- 10 for aircraft captain;
- 20 for Prime Minister, chairman of nationalized industry;
- 50 for top executive.

These data demonstrate that there are huge differences in the levels of earnings. Since 1980, i.e. since the deregulation phase launched by the Prime Minister Margaret Thatcher and President Ronald Reagan, such differences have increased - especially at the top. Nowadays top executives and general managers (CEOs) in the US and UK earn more that 400 times the average income. Phelps Brown (1988, p. 398) reports on the differences to be found in the 1960s in Czechoslovakia, East Germany, Poland and Great Britain. They were much lower in the quoted Eastern European countries: while the average wage was fixed equal to 100 in the four countries, the salary of the average manager was 188 in Czechoslovakia, 160 in East Germany, 166 in Poland and 362 in Great Britain. Clearly planned economies were able to contain such differences; although income per capita remained clearly disappointing compared to western European nations.

There are economic, political, institutional as well as historical reasons for which earning differences were, and still are, important. Phelps Brown on this point writes that:

> We do find constancy in one differential that can be traced far back: it appears that for 500 years, from the early fifteenth century onwards, the rate for the building craftsman in Southern England was persistently and continuously half as great again as that for the labourer (Phelps Brown and Hopkins, 1981). This shows the force of custom, and the willingness of those who pay and earn wages to follow a rule of thumb. The same force of custom has been shown by British clerical workers maintaining a margin of pay and conditions over most manual workers despite a great extension of the supply of people fitted for clerical works. It was shown also by the maintenance of traditional differentials between the trades in British engineering shops despite many changes in the tasks and equipment of those trades. (Phelps Brown, 1988, p. 399)

Of course, such rules of thumb may be shaken during significant institutional changes.

2.3 The distribution of wealth

In most societies wealth is more concentrated than earned income. There are various reasons for this:

1. First of all the (marginal and average) propensity to save is an increasing function with respect to earned income; in fact the average saving ratio of low incomes is negative, and can be as high as 50% in the case of high incomes;
2. Secondly, financial wealth may yield a different rate of return, lower for low income and higher for high incomes[3]. Numerous studies prove the differentiated rate of return on investment according to the size of holdings.[4]
3. Third, a very unequal distribution of inherited wealth, which reaches the value of 0.9 of the Gini coefficient as we shall point out below;
4. Finally this is due to the life-cycle accumulation of savings, which means that individuals have accumulated a substantial wealth just before they retire. Atkinson has long maintained that one third of the present inequality in the distribution of wealth is due to the life-cycle accumulation.

In general, wealth is very unequally distributed in Western Europe (the U.K., Ireland, Germany and Switzerland being the countries with the highest Gini coefficients); while it is less concentrated in North America and Australia. This latter is due to the fact that in these countries the process of wealth concentration has lasted for three or four generations only.

From a dynamic point of view, however, during the last century there has been a definite reduction of wealth concentration in many European countries. As far as the U.K. is concerned, while in 1911-13 the share of the top 10% of wealth owners handled 92% of total wealth, such share was 'only' 56% in 1982. The reasons for such a decline are numerous, but certainly they would have been welcomed by Keynes-had he been alive. If we consider the top 1% we note that, during the same period, this share declined from 69% to 21%.

2.4 The distribution of inherited wealth

Keynes's position in this framework is clear: he maintains that individuals, at least at birth, should have equal opportunities:

> The existing confusion of the public mind on the matter is well illustrated by the very common belief that the death duties are responsible for a reduction in the capital wealth of the country. Assuming that the State applies the proceeds of these duties to its ordinary outgoings so that taxes on incomes and consumption are correspondingly reduce or avoided, it is, of course, true that a fiscal policy of heavy death duties has the effect of increasing the community's propensity to consume. But inasmuch as an increase in the habitual propensity to consume will in general (i.e. except in conditions of full employment) serve to increase at the same time the inducement to invest, the inference commonly drawn is the exact opposite of the truth. (Keynes, 1936, p. 373)

A number of scholars have studied the level of inequality in the distribution of inherited wealth. Blinder, for instance, states that 'inherited wealth may have a disproportionate effect on overall

[3] The reasons for this may be several. For instance, it may be said that investment, to be profitable, must be carried out in a certain minimum quantity. Small savers, taken individually, are not able to exploit the profit opportunities of big investment. Their savings, accordingly, are likely to carry a smaller reward. A different way of looking at the same phenomenon is to postulate that there is a risk factor associated with investment. This risk should be reflected in the rate of return.
[4] See, for instance, Baranzini (1991, Chapter VII).

inequality because it is so unequally distributed. For example, the Gini coefficient calculated by the present author from the data given by Lansing and Sonquist is about 0.973, not far from the perfectly inegalitarian value of unity' (Blinder, 1973, p. 609).

The reasons for such a high concentration of bequeathed wealth are, among other things, to be found in the facts that

(a) wealthy persons tend to live longer, and hence to accumulate more than less rich families;
(b) wealthy men tend to marry wealthy spouses;
(c) sometimes (but not that often) inheritances are unequally distributed among heirs;
(d) finally the rate of accumulation of large estates is on average higher than that of smaller estates. (See, for instance, the works by Phelps Brown, 1988.)

As we have said, a number of scholarly studies have considered the distribution of bequests among heirs. J. Wedgwood and C. D. Harbury (quoted by Blinder, 1973) found that estates were not always divided equally among heirs, by estimating a correlation of wealth between parent and child equal to about 0.55. The same data analysed by the two authors provide a correlation of wealth between men and women who marry between 0.3 and 0.5. Blinder concludes that 'these crude calculations suggest that, with existing institutions, the passing of generations can be expected to break down the inequality in wealth only very slowly. A heroic guess might be that inequality would be reduced by 50 percent in a century' (Blinder, 1973, pp. 625-6)

It is clear that such inequalities provide a very different basis on which individuals start their life-cycle.

III. Income distribution and economic growth

Economic growth is one of the major aims of most macro-economic policies aimed at generalising well-being. As a rule, the process of growth requires the analysis of two different, not necessarily inter-related, counter-balancing tendencies:

1 First there is the *demand-side*, which is privileged by macro- and/or Keynesian economists. All mechanisms designed to increase (expected) aggregate demand have a positive effect on long-term economic growth. Investment is determined by entrepreneurial expectations, and it is determined *ex-ante*. (For a number of scholars it is rather irrelevant if *ex-post* savings will ever equal *ex-ante* investment, since the system will always be able to generate the necessary financial means.)

2 Secondly, the *supply-side*, mainly micro-economically oriented, concerns the conditions in which (a) there will be sufficient incentives to increase production, and (b) the necessary amount of (normally *ex-ante*) savings will be available to finance (normally *ex-post*) investment.

In general terms, the distribution of income (both from labour and wealth) may affect the *supply-side* of growth processes *via*:

(a) savings patterns, and/or
(b) incentives.

The way in which income (and/or wealth) is distributed does not determine either (a) or (b), but is one factor which influences both. Let us first consider the patterns of savings. It is well known that, all other things being equal, an economy in which savings have a large share of current income, will have a higher growth potential than an economy which generates fewer personal savings. More precisely, savings represent resources and output not used for consumption, making them available for investment or for other uses. In other words an economy that saves 25 percent of its income has at least in the short run a potentially more rapid pace of growth than a similar economy that saves only 20 percent of its income. We also know that savings come largely from the upper- and upper-middle income families. For instance in the U.S., according to Fusfeld (1976, pp. 677-8):

1. The top 10 percent of income-receiving units account for about 75 percent of total savings;
2. One hundred percent of savings is accounted for by the top 40 percent of income recipients;
3. The bottom 60 percent of income recipients dissaves as much as it saves.

For Switzerland, these tendencies are confirmed by the last savings data officially gathered from family samplings at the end of the 90s and, in part, confirmed by Miles (1999, pp. 4-7). These empirical findings are theoretically sound, even if in the case of the pensioners new results seem to emerge, as Miles suggests:

> What is striking [...] is that in no country is the average saving rate of any of the three cohorts aged over 65 (65-69, 70-4, and > 74) negative. The cross-country average of the typical savings rate of the 65-69 cohorts is over 15%. This is marginally higher than the average saving rate for the cohort aged 40-44 (the period in which labour earnings are near their peak for many workers and where the life-cycle theory suggests saving should be high). (Miles, 1999, p. 5)

However, even if the life-cycle theory comes out partly invalidated from the above and many other analyses, in general we should expect a higher saving ratio as incomes rise. It is therefore tempting to conclude that inequality (i.e. income inequality) leads to higher savings and hence to a more rapid economic growth, while a less unequal world would depress savings and hence the growth potential of the system. This conclusion is questionable for at least two reasons:

1. We must, in a macro-economic Keynesian framework, ask ourselves whether savings automatically become investment, that is to say whether they will add immediately to aggregate demand;

2. The distribution of wealth must also be taken into consideration, since we know that the distribution of disposable income does not coincide with the distribution of wealth (one may recall that the highest level of labour, as well as total, income is reached between 45-55 years; while the highest level of wealth is reached after the age of 55-60, and wealth continues to grow until the age of death).

Commenting on the first point, Fusfeld argues that:

> A more important consideration is the role played by government monetary and fiscal policy. Full use of resources and adequate rates of economic growth can be maintained with any pattern of income distribution. The essential requirement is maintenance of a full-employment level of aggregate demand. Any modern economy can sustain whatever growth rate its social policy determines to be desirable. If private savings are inadequate to achieve it, the needed resources can only be made available through public policy. This is an important conclusion. The proper mix of monetary and fiscal policies can sustain the desired

> rate of economic growth, making possible a wide choice of policies with respect to the distribution of income. Just as Keynesian economic policies solved one of the deep problems of a private-enterprise economy by making full-employment growth a realisable goal, those same policies make possible a more equalitarian pattern of income distribution without endangering the growth path. (Fusfeld, 1976, p. 678)

IV - Income and wealth distribution, redistribution and incentives

The relationship between income distribution and economic incentives is, to say the least, not fully understood in the economic literature (but see below). There is as yet no comprehensive study establishing an unambiguous link between monetary reward on the one hand, and length and intensity of work on the other. According to the layman, an egalitarian distribution of income should, in most general cases, destroy incentives. In other words, income inequality is necessary to achieve sustained growth. This is a hard proposition for a number of reasons:

(a) First, the distribution may refer to personal or family income, income from wealth, wealth itself or a number of other variables (like skills, family relations, and so on), or it may refer indeed to the (functional) distribution of income, i.e. among factors of production; it is therefore important to spell out the kind of inequality on which we intend to focus. It may well be that incentives still exist in a situation where inequality can be found in (both human and physical-financial) wealth distribution much more than in income distribution.

(b) One might argue that if there is a low degree of inequality in the distribution of personal income, there will not be much more inequality in the distribution of personal wealth and of income from wealth. But one may note that:

- accumulation of personal savings according to the life-cycle theory explains up to one-third of the observed inequality in the distribution of income;
- additionally, a substantial part of total wealth (from one-third in North America to probably two-thirds or more in Europe) is inter-generationally transmitted, often in conjunction with a declining population (which adds to inequality in the wealth distribution);
- finally, one could argue that the propensity to save might differ substantially within the same personal income groups.

(c) Thirdly, it is by no means certain that financial incentives are fundamental in determining the quantity and quality of work. Several surveys seem to indicate that executives are more motivated by status and power than by financial rewards. A study published by the Brookings Institution in 1966, with the title *Economic Behaviour of the Affluent,* found that:

> The picture of the high-income individual emerging from our study is that of a hardworking executive or professional, whose decisions about how much to work are dictated by the demand of his job or by his health, rather than by taxes or other pecuniary considerations. (Barlow, Brazer and Morgan, 1966, p. 2)

As pointed out by Fusfeld (1976, p. 679), these conclusions are also valid for the average American citizen. In fact Morgan, Sirageldin and Beerwaldt maintain that:

> The United States is affluent today because its people are hardworking, ambitious, and progressive. Many of them do economically productive work for purposes other than monetary rewards; we estimate that such unpaid work in 1964, if it could be measured,

> would be found to have increased the country's estimated Gross National Product by 38%. (Morgan, Sirageldin and Beerwaldt, 1966, p. 5)

The same study indicates that in given circumstances workers with low hourly wages work for longer hours in order to sustain a standard of living not so much lower than those with higher earnings, a sort of *keeping up with the Joneses* which must be true in parts of the European Continent as well. Hence limited rewards apparently may stimulate greater efforts. The empirical evidence available does not even prove that high marginal income tax rates inhibit incentives to work. The reasons may be found in the following quotation:

> Two counterbalancing tendencies are at work. One is the inhibiting effect of taxes. If 50 percent of the additional income earned from work effort must be paid out in taxes, an individual may decide it is not worth the candle, and go fishing. Countering that effect is the tendency of someone seeking specific high-income goals to work more if difficulties are placed in his path. An individual may work even harder if half of his marginal increases in income are taken in taxes. The important point is that both effects are felt, and the present state of knowledge cannot indicate which one is the stronger, at present rates and levels of taxation. (Fusfeld, 1976, p. 679)

We might therefore suggest that the shift towards greater equality in income distribution which has taken place in Western Europe in general over the last forty years (where the Gini coefficient relating to gross income has dropped from around 0.45 to 0.35) seems not to have had a strong inhibiting effect on either incentives or economic growth, i.e. on the *supply-side* of the economy. Such an improvement on the gross distribution of income, which is also to be assessed against an increase in the share of wages in national income, might of course have had an effect on long-term growth through an increase in aggregate private consumption, i.e. on aggregate demand. Whether such an effect will be more visible in the near feature remains to be seen.

A similar argument may apply to wealth accumulation, and in particular to the disincentive effect of wealth tax and estate duty. People may be discouraged by both kinds of taxes from accumulating wealth; but on the other hand the desire to bequeathe a given amount of financial or physical assets to each of the children may encourage capital accumulation. (On this point see Meade, 1964, 1966, 1968 and 1973.) To sum up, we must recognise, in all fairness, that no one knows, on the basis of theory or empirical evidence, whether income and wealth inequality either promotes or diminishes work incentives.[5]

V - Income differentials as a rationing device

The above argument leads us to consider the role of income differentials. Income differentials from earned incomes are an important incentive for management of enterprises to economise on expensive inputs. Additionally, a structure of rewards and opportunities is necessary to promote attitudes leading to hard work and maximum economic (as well as social) effort. Such a structure seems to be necessary also in a planned economy, as the Soviet Union was up to 1990:

[5] Since the major component of social policy is social insurance, the causal relation between incentives and economic growth is affected, among other things, by *moral hazard* and *adverse selection* effects. Uncertainty and risk-aversion about future health create a demand for health insurance. As Fuchs (1987, p. 618) points out, ‘once insurance is in place, moral hazard leads to over-utilization of medical care (Pauly, 1968)’. This means that measures taken to reduce the impact of existing *moral hazards,* for instance by means of cost-sharing schemes (of various kinds) will reduce the demand for health insurance. It is possible that, on the whole, *moral hazards,* are responsible for once-for-all jumps in the rate of growth of modern economies, but their presence imply a certain degree of resource allocation and, in certain cases, a higher level of economic inequality (in favour of smart economic agents).

> This is one reason for wide differences in earned incomes in the Soviet Union. Scarcity of skilled scientists and engineers requires that they be used where they are the most productive. Placing high costs on their use by paying them high salaries is one way that economic planners get administrators to economize on the use of these skilled people. A more equalitarian pattern of wages and salaried would lead to waste of those scarce resources on less productive activities that could be carried out with less skilled and more plentiful types of labor. Income differentials are an important source of economic efficiency, not necessarily because of the incentives they give to workers, but because of the incentives they give to managers. Executives are constantly striving to substitute less costly for more costly factors of production. A wage and salary schedule in which differences are based on marginal productivities enables them to do so. The result is greater efficiency in resource allocation. In contrast, by removing some of the penalties for inefficiency, an equalitarian system of rewards offers less incentive to managers to operate efficiently. (Fusfeld, 1976, p. 680)

This would imply that even if a community should decide that disposable income after taxes should be equalised (for the sake of radical or extreme social policy), it would still be desirable to have income from work determined by a mechanism which takes into account incentives, if only to get socialist managers to economise on expensive workers.

VI - Wealth distribution and growth

As we have already pointed out above, inequalities in the distribution of personal income have a different impact on growth than inequalities in the distribution of wealth (both life-cycle and inter-generational). This has been pointed out in numerous studies; and in general it has been shown that the concentration process in the distribution of wealth may have a positive effect on economic growth for at least four reasons:[6]

1. new investment, in order to be successful and profitable, must be carried out in a certain minimum quantity. If capital markets are not perfect, especially if markets for shares are not perfectly working (and this for numerous reasons indeed), wealth needs to be sufficiently concentrated in order for an individual, family or dynasty to initiate a new industrial or business activity;

2. the second reason is well expounded by Aghion and Howitt, who state that it has been

> recently emphasized by policy advisers to transition economies in Central and Eastern Europe: namely <u>corporate</u> <u>governance</u> and, more specifically, the need for <u>concentrated asset ownership</u> and <u>controlling majorities</u> in firms. Besides the fact that a multiplicity of owners tends to complicate the decision-making process within the firm (due to potential conflicts of interest among shareholders), having many (dispersed) shareholders raises the scope for <u>free-riding</u> on the necessary monitoring of the performance and effort of the firm's manager and employees. (Aghion and Howitt, 1998, p. 281)

[6] Aghion and Howitt mention an additional element, based on incentives, which was first formalised by James Alexander Mirrlees: 'namely, in a moral hazard context where output realizations depend on an unobservable effort borne by agents [...] rewarding the employees with a constant wage independent from (the observable) output performance, will obviously discourage them from investing any effort.'

3. the third reason (as expounded in Baranzini, 1991, Chapters 7-8) refers to the fact that an unequal distribution of inter-generational wealth may not only throw additional light onto the processes of wealth concentration and dispersion, but also leads to a higher overall consumption rate, which might allow the system to place itself on a higher growth path. This is particularly true in the case in which the rate of growth of population and/or technical progress is high. Additionally, the demographic and institutional framework may enhance (or indeed hinder) such a process.

4. the fourth reason may be directly linked with capital market imperfections. Taken individually, small savers and investors may not be in a position to fully exploit the opportunities of big savers and big investors.

For all these reasons it would seem that a certain level of wealth concentration might favour the process of long-term productive investment, which of course needs to be matched by a corresponding increase in aggregate demand, and entrepreneurial expectations.

VII - Conclusions and Keynes's position

How much equality is to be hoped for today? And, above all, how much equality is necessary to promote economic growth, which in the long run may benefit all classes? This topic has been tackled repeatedly in recent literature. Post-Keynesian argue that medium-term economic growth will be sustained by a higher level of private consumption, which among other things may be achieved by means of redistribution from high-income to low-income earners. Still other lines of economic thought maintain that the level of taxation required by a redistributive process has a disincentivating effect on entrepreneurial activity and private investment in general. The empirical evidence available (see Atkinson, 1995) seems to be inconclusive. If one disaggregates, it is possible that inequality in the distribution of income may not necessarily promote growth, while inequality in the distribution of wealth may, in certain cases, be a pre-requisite for growth. We all know that the distribution of income and the distribution of wealth are closely connected, but in specific institutional settings they may be disjointed to ensure maximum long-term economic growth.

In the above quoted Chapter 24 of his *General Theory of Employment, Interest and Money* Keynes argues that:

> For my own part, I believe that there is a social and psychological justification for significant inequalities of incomes and wealth, but not for such large disparities as exist to-day. There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition. (Keynes, 1936, p. 375)

Far from being the science that studies the optimal allocations of scarce resources[7], economics seems to be the discipline that is still nowadays incapable of employing its own enormous resources, and incapable of containing economic and social disparities. Recently the ILO has argued that about 180 million workers are unemployed in the world; and many hundreds of billions of euro worth of equipment lie idle; and economic disparities over the last thirty years have tended to increase. It may be worth bringing this paper to a close with a statement of Luigi L. Pasinetti, the last surviving member of that unique group of scholars that in Cambridge took up the task to extend

[7] According to Lionel Robbins 'Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses' (Robbins, 1935, p. 16)

to the long period the Keynesian model. In fact Pasinetti maintains that the changes in the composition of demand (due to Engel's Law) constrain our industrial economies

> a quella alternanza di fasi di febbrile attività e di fasi di depressione e di disoccupazione, che tanti sciupii, sperperi e miseria ha causato nei sistemi industriali, pur in mezzo all'opulenza e alle enormi possibilità di produzione allo stato potenziale. (Pasinetti, 1983, p. 36)

The incapacity of our modern economic systems to ensure full employment of resources, labour in particular, and an equitable distribution of income, surely represents a shameful failure.

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