Should Sraffian economics be dropped out of the post-Keynesian school?

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Abstract:

Several post-Keynesian methodologists argue that Sraffians ought to be dropped out of the post-Keynesian school (for instance, Dunn, 2000, p. 350), as Sraffians seem to be overly concerned with profit maximization, static efficiency and the long run, while paying little attention to issues such as uncertainty, liquidity, and the short run. A split between Sraffians and Fundamentalist and Kaleckian post-Keynesians, is in their view, would help to bring more coherence to post-Keynesian economics. The present paper argues that this is an unnecessary move. First, Sraffians are intimately linked with post-Keynesian analysis by tradition and by history. Second, Sraffians are in close agreement with other post-Keynesians on crucial issues such as the causality between investment and saving, the role of effective demand both in the short and the long run, the endogeneity of the money supply and the possibility for the central bank to set short-run interest rates at levels of their choice (Dutt and Amadeo, 1990). Third, Sraffian views are not homogenous and have evolved through time, so that, as pointed out by Nell (2009 and Harcourt 2001), the distinctions between the Sraffians and the other strands 'do not appear to be as sharp as they once did'. Modern Sraffians do not assume anymore that the economy is always running at normal or full capacity. Most of them don't even assume that the economy is running at normal capacity in the long run. Fourth, the Sraffians provide equations that explain production and distribution in an interdependent setting, something that is lacking to some extent in the other strands. Sraffian price theory can be seen as an idealised administered pricing theory, a specific kind of benchmark pricing (Nell, 1998), which abstracts from imperfect information, past disequilibria, non-uniform profit rates or target rates of return, debt structures, etc. Finally, Sraffians have made contributions to monetary analysis. The Sraffians were the first to claim that relative prices and real wages are affected by the trend level of the rate of interest, through its proportional impact on the normal profit rate, that is, the target rate of return imbedded in the pricing mark-up. The paper will develop these various points, arguing that Sraffian economics has made a positive contribution to post-Keynesian economics.