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CONFLICT, DEMAND AND ECONOMIC DEVELOPMENT

ESSAYS IN HONOUR OF AMIT BHADURI

Edited by
Deepankar Basu and Debarshi Das

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Conflict, Demand and Economic Development

This book presents a comprehensive overview of three key areas: heterodox macroeconomics, development economics and classical political economy. It offers an alternative macroeconomic framework to analyse policies with an emphasis on issues of equity and justice.

With contributions by leading economists from across the world, it examines the growth and distribution of income; trade and finance in developing countries; classical political economy and Marxist theory; dualism in the US economy; economic crisis; and agrarian economy in poor countries. It explores themes such as the effect of an exogenous shock to wage share; Harrodian instability and Steindlian solutions; economics and politics of social democracy; the role of power in the macroeconomy; economic development through the promotion of domestic value chains; and reflections on primitive accumulation. Going beyond the neo-classical tradition, the volume opens up a new vista of economics by discussing unexplored questions. It provides a refreshing treatment of time-tested ideas as well as discussions of recent developments and current research.

A major intervention in heterodox macroeconomics and a tribute to macroeconomist Amit Bhaduri, this book will be useful to scholars and researchers of economics, political economy, development studies, sociology, political science, public administration, economic theory, economic history, economic geography and critical studies, as well as professionals, economists and policymakers.

Deepankar Basu is Associate Professor in the Department of Economics at the University of Massachusetts, Amherst, USA.

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Conflict, Demand and Economic Development: Essays in Honour of Amit Bhaduri demonstrates, without question, that rigorous, important and profoundly insightful economic research is alive and well outside of the narrow, and often misleading confines of ‘mainstream’ economics. The essays published here by outstanding economists working in the traditions of Marx, Keynes, Kalecki, Robinson, and Prebisch address central economic and political issues of our day, including structural unemployment, worsening inequality within and between countries, technological change, and rural economic development. These essays are of great interest and are a fitting tribute to Amit Bhaduri, who made seminal contributions to help keep alive these dynamic and crucial research traditions.

Gerald Epstein, *Professor of Economics and Co-Director,
Political Economy Research Institute (PERI),
University of Massachusetts Amherst, USA*

Professor Amit Bhaduri has been one of the truly outstanding economists of our time, whose commitment to changing the world has led to his refusal to be pigeonholed into any narrow specialization. He has made seminal contributions in areas as diverse as macroeconomics, capital theory, economic history and semi-feudal agriculture. The essays in this volume reflecting the diversity of his own interests are a fitting tribute to his renaissance personality.

Prabhat Patnaik, *Professor Emeritus, Centre for Economic
Studies and Planning, Jawaharlal Nehru
University, Delhi, India*

Conflict, Demand and Economic Development

Essays in Honour of Amit Bhaduri

Edited by Deepankar Basu
and Debarshi Das

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Contents

<i>List of figures</i>	vii
<i>List of tables</i>	ix
<i>List of contributors</i>	x
<i>Foreword</i>	xiv
DUNCAN K. FOLEY	
1 Introduction	1
DEEPANKAR BASU AND DEBARSHI DAS	
PART I	
Post-Keynesian macroeconomics: growth and distribution	23
2 Power, income inequality and economic growth	25
AMITAVA KRISHNA DUTT	
3 Harroddian instability in Kaleckian models and Steindlian solutions: an elementary discussion	44
ECKHARD HEIN	
4 Conflict as closure: a Kaleckian model of growth and distribution under financialization	70
SRINIVAS RAGHAVENDRA AND PETRI T. PIIROINEN	
5 Aggregate demand policy in mature and dual economies	88
PETER SKOTT	
6 Competition, technological change and demand-led growth	103
SUBRATA GUHA	
7 The economics and politics of social democracy: a reconsideration	119
SERVAAS STORM	

8	What is the impact of an exogenous shock to the wage share? VAR results for the US economy, 1973–2018	142
	DEEPANKAR BASU AND LEILA GAUTHAM	
PART II		
	Classical political economy: conflict and exploitation	169
9	‘Superhuman efforts’ and the theory of value and distribution: Sraffa on Pareto	171
	HEINZ D. KURZ	
10	Rosa Luxemburg, Mikhail Tugan-Baranovsky and the current state of economic crisis	191
	TRACY MOTT AND P. SAI-WING HO	
11	Some reflections on ‘primitive accumulation’	202
	RUNE SKARSTEIN	
12	A model of the Marxist rent theory	223
	DEBARSHI DAS	
PART III		
	Duality and underdevelopment	243
13	Rural poor or peasant-proletarians: agrarian change and labour markets in Eastern United Provinces in the colonial period	245
	RAMAA VASUDEVAN	
14	Rising inequality and dualism in the US economy: evidence and potential explanations	269
	IVAN MENDIETA-MUÑOZ, CODRINA RADA AND RUDI VON ARNIM	
15	India’s growth story: a model of ‘riskless capitalism’?	286
	ROHIT AZAD AND PRASENJIT BOSE	
16	Supporting domestic development through coordinating the promotion of domestic value chains	322
	P. SAI-WING HO	
	<i>Index</i>	335

Figures

2.1	The dynamics of power: unstable case.	36
2.2	The dynamics of power: with stabilizing social norms.	36
3.1	Unit costs and normal/target rate of capacity utilisation.	48
3.2	Harroddian instability in the basic neo-Kaleckian/Steindlian model.	50
3.3	Steindlian stabilisation of Harroddian instability I – capital scrapping.	56
3.4	Steindlian stabilisation of Harroddian instability II – government financial balances.	61
4.1	(a) The finance and expansion frontiers FF and EF, respectively, of the post-Keynesian firm. (b) A positive rotation of the finance frontier. (c) An upward shift in the expansion frontier.	75
4.2	The points A (g_{sb}, r_{sb}), B (g_{sm}, r_{sm}), and C (g_{sp}, r_{sp}) of the post-Keynesian firm.	77
4.3	Time histories for $g(t)$, $r(t)$ and $u(t)$.	81
4.4	Equilibrium values of g , r and u points when varying δ .	81
4.5	Normalized equilibrium values for r and u when varying the savings parameters (a) s_f and (b) s_z .	82
4.6	Trajectories showing hysteresis when switching δ back and forth between 0.1 and 0.9.	83
6.1	Effect of a rise in i_0 .	110
6.2	Effect of a fall in γ_0 or β_x .	113
7.1	A morphology of social democracy.	124
8.1	Time series plots of the variables in the VAR analysis for the period 1973Q1 to 2018Q4.	157
8.2	Impulse response functions based on the causal ordering ($\psi \rightarrow q \rightarrow z$).	160
8.3	Impulse response functions based on the causal ordering ($q \rightarrow \psi \rightarrow z$).	162
8.4	Impulse response functions for a 1-standard deviation shock to the wage share (all variables in levels).	163
8.5	Impulse response functions for a 1-standard deviation shock to the wage share (u , ψ and z in first differences).	164

12.1	Differential rent of the first form (<i>DR I</i>).	228
12.2	Differential rent of the second form (<i>DR II</i>).	229
14.1	BLS headline measure of the labour share in the nonfarm business sector (grey solid) versus our measure (black solid).	271
14.2	Sectoral component contributions in manufacturing (MAN) and education and health services (EHS).	276
14.3	Sectoral contributions across “golden age” and “neoliberal era”.	277
14.4	Structural change.	280
15.1	Groupwise annual credit flow of banks (% of GDP).	296
15.2	Share of stressed loans in gross advances of banks.	297
15.3	Share in total bank borrowings of firms with two financial characteristics.	297
15.4	The internal constraint.	300
15.5	The external constraint.	301
15.6	(A) Keynes’s vs. Kalecki’s MEI and Principle of Increasing Risk; (B) MEI in an established oligopoly; (C) MEI in a nascent oligopoly.	305
15.7	The growth isocline.	307
15.8	The debt isocline.	310
15.9	Macrodynamics of the two rates of growth in the model.	311
15.10	Relaxation of the two constraints.	312
15.11	Boom of 2003–04 to 2007–08.	312
15.12	Boom of 2009–10 to 2010–11.	314

Tables

3.1	Responses of stable short- and long-run equilibria to changes in exogenous variables	58
3.2	Responses of stable short- and long-run equilibria to changes in exogenous variables	63
7.1	Social democracy as a historical phenomenon	121
7.2	The trade-off between unemployment and inequality	133
7.3	Real GDP growth \hat{x} , hourly employment growth $\hat{\ell}$, labour productivity growth $\hat{\lambda}$, and the employment elasticity of growth η : six EU countries, 1990–99 and 2000–08	134
8.1	ADF and KPSS test results	157
8.2	Correlation matrix of reduced form residuals	158
8.3	Forecast error variance decomposition for the system $\psi \rightarrow q \rightarrow z$	159
8.4	Forecast error variance decomposition for the system $q \rightarrow \psi \rightarrow z$	161
12.1	<i>DR II</i> when two units of capital are applied on the same land	238
13.1	Population density and land use	249
13.2	Tenurial distribution of cultivated area (%)	249
13.3	Distribution of land according to size class of revenue payments (1948)	250
13.4	Debt burden/debtor across size class of holdings (Rs)	251
13.5	Debt burden/debtor across caste groups (Rs)	251
13.6	Distribution of land according to caste (%)	254
13.7	Percentage share of farm servants to agricultural laborers	256
13.8	Percentage of cultivators cum laborers in agricultural workforce (male)	256
13.9	Incidence of rural labor (male)	256
13.10	Wages of ploughmen and unskilled labor	257
13.11	Registered emigrants sailing from Calcutta for British Colonies	259
13.12	Inland emigration to Assam plantations	261
13.13	Net emigration flow	263
15.1	Domestic savings and investment (as % of GDP)	296

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Foreword

Amit Bhaduri: the activist as economic theorist

This book celebrates Amit Bhaduri's career in the traditional scholarly form of a *festschrift* of papers addressing various aspects of Bhaduri's own work and interests. It is a fitting tribute to the wide scope and powerful influence of Bhaduri's work.

It is also important, as the editors' Introduction explains, to remember that Bhaduri's scientific and scholarly work is an integral part of his life as a political activist. Bhaduri himself has insisted on this point in his writing, teaching and speaking throughout his career. Bhaduri is an outstanding example of the ongoing tradition of economists whose activism and social criticism have motivated deep and influential scholarly work.¹ Reflecting on the mutual influence of activism on theory and theory on activism in Bhaduri's career gives us an insight into the complex intertwining of politics and scholarly investigation in the long history of political economy.

Activism in Bhaduri's case starts with his concern for the suffering of the urban and particularly rural poor in the India of his birth and upbringing. This concern is reflected in his numerous publications on the historical roots and reproduction of agrarian poverty. It is striking, however, to note that alongside this work firmly situated in detailed empirical study of Indian agriculture, Bhaduri was consistently carrying on another branch of work on much more abstract problems. For example, Bhaduri's first publication concerned the concept of the marginal productivity of capital, and he later worked on the question of price- and quantity-traverses. I conclude from this that Bhaduri had a lively and instinctive understanding of the close relation of abstract theoretical investigation to practical day-to-day issues of political economy. A recognition of this connection, and the successful pursuit of both levels of investigation, is rare in the history of political economy, and the mark of a master.

We might also ask what impact theoretical investigations had on Bhaduri's activism. In this dimension, too, Bhaduri stands out as a thinker who insistently pursues the recognition of the abstract in the concrete, another talent that is rare and to be treasured. The transformation of Indian agriculture and the Indian economy in the last sixty years are examples of traverses in prices

and quantities: Bhaduri's underlying method shines through the diversity of his scholarly work. In these respects, Bhaduri carried on and developed the intellectual and political program of his mentor, Joan Robinson, and became an outstanding representative and heir of her thought and activism.

The many strands of Bhaduri's intellectual life converge in his seminal papers on distribution and economic growth co-authored with Stephen Marglin. The major themes of class, employment, income, and economic welfare come together in this work with a remarkable degree of elegance and simplicity of theoretical tools. These papers are influential because of the important message they convey about the ongoing centrality of class relations to modern capitalist society, and equally because they convey that message in a framework simple and general enough to be adopted and developed by other researchers. In the context of an era of stale and scholastic mainstream macroeconomics, these papers are a beacon of good sense and acute analytical thinking.

It is not easy to follow in the footsteps of figures like Robinson and Bhaduri, but I urge younger scholars whose activism combines with the theoretical drive to see the abstract in the concrete to emulate them.

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Note

- 1 I remember attending a luncheon at MIT celebrating Simon Kuznets's award of the Swedish Bank Prize in Economic Sciences in Memory of Alfred Nobel, at which Kuznets was asked how he got interested in economics. "I wanted to understand the Jewish question better", he replied, then went on to explain that Russian treatment of its Jewish population was in his mind representative of the host of unresolved social and economic problems in the Russian empire Kuznets grew up in.



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1 Introduction

Deepankar Basu and Debarshi Das

We have both had the good fortune to be students of Amit Bhaduri. As students in the mid-1990s in the Centre for Economic Studies and Planning (CESP), Jawaharlal Nehru University, New Delhi, India, we took courses on macroeconomics and nonlinear dynamical systems with him. As we worked on our own research projects during and after our PhDs, we gradually came to appreciate the enormous contribution Amit has made, through his teaching and research, to the development of contemporary heterodox economics. This *festschrift* is a celebration of his varied contributions as a heterodox economist and as a critical, progressive voice. In this introductory chapter, we first present a short biographical sketch of Amit and then discuss the contents of the other chapters comprising this volume. We end with a brief discussion of some issues at the frontier of contemporary heterodox economics research.

Amit Bhaduri: a biographical note

Born in 1940, Amit Bhaduri's formative years were spent in the newly independent country of India. The left movement which was surging through Bengal in the 1940s and 1950s left a lasting impression on him. He nearly got thrown out of his high school in Calcutta for taking part in street protests against a tram fare hike. Unlike middle-class Indians who took up safe careers in medicine or engineering, Amit did not veer towards the natural sciences. The *zeitgeist* of the era pulled him towards economics. He had the first taste of the subject during his college years at Presidency College (later Presidency University) in Calcutta (later renamed as Kolkata).

He obtained his bachelor's degree in economics from Calcutta (1960), and then Cambridge (1963). The unstructured teaching at Cambridge first baffled him, but later he learned to enjoy the style. After a brief one-year stint at MIT – the macroeconomic wave lengths did not match – he returned to Cambridge to finish his PhD, rather quickly, in 1967. The dissertation was on the time structure of capital related to capital theory, which, at that time, was a rage on both sides of the pond. Amit's first published paper came out in 1966 – a full year before he completed his PhD (Bhaduri, 1966).

2 Deepankar Basu and Debarshi Das

During this time – that is, the late 1960s and early 1970s – his academic preoccupations centred around capital theory. It was also during this time that he was introduced by Joan Robinson to Michał Kalecki's seminal contributions. This was to leave a profound impact on his research. In his own words, "I saw immediately the connection between Marx, Keynes and Kalecki." In 1968 he would publish his second paper, on project evaluation, which was influenced by a paper of Kalecki and Rakowski published four years earlier (Bhaduri, 1968).

But this was to change soon. Another vista of his contributions would open up, urged by the social upheavals of the time. Soon after his PhD *viva voce*, he returned to India. Short stints at the Agro-economic Research Centre, Delhi (a non-teaching job), Delhi School of Economics (a teaching job), and Sri Lanka (as advisor to the first Left Front government) followed. During his stay in Sri Lanka, Amit was involved in constructing an input–output model, incorporating a multipurpose irrigation dam. The shifting times did not let his curious soul stay at one place. The turbulent condition in India, and practically all over the world, including Vietnam, soon dragged him out of Sri Lanka. He resigned from his post in Sri Lanka and returned to India, without a job but with a burning desire to understand its villages. His dissatisfaction also had to do with the inability of conventional left parties to respond adequately to the profound changes taking place in society.

Like other parts of the country, rural India was also going through a period of turmoil. In 1967, petty peasants and sharecroppers in the northern fringe area of Naxalbari, West Bengal, India, rose in revolt against local landholders. Although radical workers of the Communist Party of India (Marxist), or CPI(M), had been working in the area, the party did not approve of the radicalism. The state government of West Bengal was being run by a coalition in which the CPI(M) was a major ally. The peasants of Naxalbari briefly took over the land they cultivated, from landlords, and chased away police forces. In the infamous retaliatory crackdown, the state police shot dead a number of sharecroppers, including women. The Naxalbari revolt split the party two years later. The movement sparked by the Naxalbari revolt spread through large swathes of the Indian countryside.

"In those days my interest in politics was far greater than in economics", Amit recalls. Not surprisingly, he landed in West Bengal, from Sri Lanka, in 1971. For months, he roamed the villages of Bengal taking sporadic notes. What he saw and heard would go on to influence much of his later work. These include, in published form, "A Study in Agricultural Backwardness under Semi-Feudalism" (1973), "On the Formation of Usurious Interest Rates in Backward Agriculture" (1977), "Class Relations and the Pattern of Accumulation in an Agrarian Economy" (1981) and *Economic Structure of Backward Agriculture* (1983a, a book).

This is an impressive body of work. The initial puzzle that animated it was this: neither capitalist nor feudal production relations could be clearly discerned in the villages Amit had travelled through. Moreover, it appeared that

the momentum of transition from feudalism to capitalism was missing. To be sure, the putative transition is a long-run phenomenon and can be scarcely discerned within a brief time frame. Nonetheless, bereft of any logic of accumulation, even the long-run transformation seemed untenable. Amit's task was to understand this absence of accumulation. His groundbreaking paper of 1973 did precisely that. The logic is compelling in its simplicity. Landlords earn interest income on consumption loans advanced to sharecroppers, who have leased in land from the same landlords and pay them rent. Since interest income is important, the landlord would not have any incentive to invest in land. Thus, agrarian accumulation gets botched.

The idea that credit and land markets in the rural economy could be linked and that this yields unusual outcomes was not novel. The literature on 'interlocking' in the Indian economic lore dealt with it. Krishna Bharadwaj, among others, contributed to the chiselling of this idea. However, Amit's contribution in this respect was salient mainly for two reasons. First, the paper formalised the argument of interlocking in a precise and clear way. It was told with an admirable degree of economy and clarity. This simplicity of exposition has been Amit's forte. Second, it touched the political nerve of the time. That nerve was the stagnancy of productive forces and the fettering of productive forces by production relations. It was suggested that the tension of this dialectic led to political upheavals in the countryside. The established left parties were not responding adequately to this fluid situation. The significance of the 1973 paper, and the related work that followed, was felt both in terms of formal economics and contemporary politics.

The paper left a deep impact on both mainstream development economics as well as the political economy literature in India. Many papers on sharecropping followed in response to Amit's 1973 paper. Criticisms came its way too, including, for example, the claim that the equilibrium outcome was not dynamically stable – although Amit himself had delineated the conditions under which the stagnancy envisaged in the paper could disappear. The debate on the 'Mode of Production' in Indian agriculture, which predated the 1973 paper, was also enriched by its insights. The 'semi-feudalism thesis', which Amit proposed, had many backers. However, as Alice Thorner concluded, it was eventually the 'gradual development of capitalism' thesis which prevailed when the debate wound up in the late 1970s.

In "On the Formation of Usurious Interest Rates in Backward Agriculture" (1977), Amit made another notable contribution to the understanding of rural economy: what determines the rate of interest charged by moneylenders in the rural credit markets? Amit also worked in the field of economic history in "The Evolution of Land Relations in Eastern India under British Rule" (1976). The paper was an attempt to understand the zamindari system of land tenancy, which was instituted in eastern India during British rule. It seemed to lack all momentum, and was contrary to what the British Raj had planned when they crafted the tenurial system of zamindari.

The early 1970s brought two other major changes in his life. He married an old friend, who was in the Indian Foreign Service. To be with her, Amit sojourned to Vienna, where he worked briefly for the United Nations Industrial Development Organization (UNIDO). But in 1972 he left his job at UNIDO, returned to India and joined as a fellow in the newly started – by his former colleague from Delhi School of Economics, Professor K. N. Raj – Centre for Development Studies in Kerala. Soon he shifted to the Centre for Economic Studies and Planning (CESP) in the recently founded Jawaharlal Nehru University (JNU) at New Delhi. The Centre started teaching a master’s course in economics as he joined with a handful of colleagues – he was a founding faculty member. As Amit describes, “my unambiguous acceptance of an academic career began then”. This appointment, with an intermission, lasted till he retired in 2001. He was conferred the position of emeritus professor in the same department. In January 2020, he resigned from the position of emeritus professor in protest against the throttling of dissent by the JNU administration.

After getting recruited to teach macroeconomics at JNU, he had to acquaint himself with different strands of the literature. This engagement resulted in a rich body of work, including “On the Analogy between Quantity- and Price-Traverse” (1975), “Accumulation and Exploitation: An Analysis in the Tradition of Marx, Sraffa and Kalecki” (1980) co-authored with Joan Robinson, “Multimarket Classification of Unemployment: A Sceptical Note” (1983b) and “The Rise of Monetarism as a Social Doctrine” (1985) with Joseph Steindl. A number of agriculture-related interventions also saw the light of day. These include the book *Economic Structure of Backward Agriculture* (1983a) as well the articles “Cropsharing as a Labour Process, Size of Farm and Supervision Cost” (1983c), and “Persistence and Polarisation: A Study in the Dynamics of Agrarian Contradiction” (1986) co-authored with Hussain Zillur Rahman and Ann-Lisbet Arn.

In 1982, Amit resigned from JNU and travelled to Mexico with his wife who was posted there. He taught at El Colegio de Mexico and later at Stanford University. During this time his already-growing interest in macroeconomics found a notable outlet. In 1986 he published a textbook on macroeconomics, entitled *Macroeconomics: the Dynamics of Commodity Production* (1986). The book was a marked departure from the usual treatment of the subject one finds in college- or university-level textbooks. The connections and differences between monetarist, Keynesian and Kaleckian macroeconomics are explained with the simplicity in which Amit excels. Karl Marx’s contributions, in particular how his ideas of money and profit affected latter-day thinking, were noted. Rather than a drab, mechanical rendering of the subject, the book was a celebration of various schools of thought. One would be hard-pressed to find the word ‘capitalism’ in a standard book of macroeconomics. And here is Amit, in the very Introduction: “Most of the material covered here grew out of my attempts to teach a useful course on the macroeconomics of

capitalism in various universities in India, Europe and Mexico.” The book was translated into Spanish and several other European languages. It became a bestseller in Latin America. It was well received in Europe as well. But not so much in the USA and UK, where neoliberal ideas were ruling academia by then.

After less than a year’s stint at Stanford, Amit returned to Central Europe, via Mexico, in 1986. He taught for three years in Europe (1986–1989), first at the University of Linz in Austria, and then at the University of Vienna. Two more papers on macroeconomics came out during this period. The first was on chaotic macroeconomic dynamics, “The Complex Dynamics of the Simple Ricardian System” (1987) with Donald J. Harris. The other was on the prospects of getting trapped by external debt, “Dependent and Self-reliant Growth with Foreign Borrowing” (1987). During this period a few of his co-authored works were published in Spanish-language academic journals as well.

Amit’s collaborative work with Stephen Marglin at WIDER (World Institute of Development Economic Research, Helsinki) on characterizing the postwar ‘golden age of capitalism’ was first conceived during this period. It finally led to the paper “Unemployment and the Real Wage: the Economic Basis for Contesting Political Ideologies” (1990), and this must be mentioned at some length. This is one of the most influential papers in the field of heterodox macroeconomics published in the last several decades. How does the tilt of wage-profit distribution affect output and employment in a capitalist economy? The paper sought to answer this question in a static Keynesian framework. There is no clear answer, it turned out. It all depends on parametric values, but this ambiguity is not necessarily a bad thing. The paper provided an overarching framework in which underconsumptionist ideas (wage-led output growth) and non-underconsumptionist ideas (profit-led output growth) could be accommodated as sub-cases. The analysis highlighted links between contesting political ideologies and macroeconomic theory within the Keynesian framework.

A plethora of academic research in the neo-Kaleckian and Keynesian tradition, both theoretical and empirical, has been spawned in the wake of Bhaduri and Marglin (1990). Later, in 2008, Amit would follow it up in “On the Dynamics of Profit-led and Wage-led Growth” (2008), and “Wage- and Profit-led Regimes under Modern Finance: An Exploration” (2017) with Srinivas Raghavendra.

In the late 1980s Amit was mostly in Europe, teaching and touring Eastern Europe to deliver invited lectures. He returned to Calcutta, with the idea of starting a cooperative among rural, small handloom workers, with his own savings. To make ends meet, he took up the job of Professor of Economics at the Indian Institute of Management, Calcutta. The cooperative experiment was not doing particularly badly, but he lost interest in running a cooperative full time. He went back to Germany where his wife was posted, and

where the Berlin Wall was about to fall. During this period, he taught at the University of Bremen, the Norwegian University of Science and Technology, University of Bologna and was also a fellow for a year at the Institute of Advanced Studies in Berlin. The mid-1990s brought him back to JNU, New Delhi, once more at the invitation of the then vice-chancellor. He continued as Professor of Economics at CESP, JNU, till he took premature retirement in 2001.

The 1990s was also the time when quite a few of his books were published. *Unconventional Economics Essays* (1993) and *On the Border of Economic Theory and History* (2000) were collections of his previously published academic articles. As the Eastern Bloc disintegrated in the early 1990s, the political economy of India underwent a major shift as well. In 1991 the newly appointed central government, which was in a minority position in the national parliament, adopted a comprehensive set of measures to open up sections of the economy to global and domestic capital. This “liberalisation” drive would be the subject of critical inquiry in a small book co-authored by Amit and his colleague at JNU, Deepak Nayyar, *An Intelligent Person’s Guide of Liberalization* (1996).

This book, we can say with the benefit of hindsight, was the beginning of the fourth batch of Amit’s less technical, and more popular, contributions. His work would focus increasingly on the profound and often deleterious impact the entry of big, corporate capital makes on the lives of the people in a developing country. The books *Development with Dignity: A Case of Full Employment* (2005), *The Face You Were Afraid to See: Essays on the Indian Economy* (2009) and *Malignant Growth* (2016) fall in this line of work which derived sustenance not so much from books as from his participation in many popular movements. However, he continued to publish on the related academic literature of inter-sectoral interaction models of development, as evidenced in, “Effective Demand and the Terms of Trade in a Dual Economy: A Kaldorian Perspective” (2003) with Rune Skarstein, and more recently, “A Study in Development by Dispossession” (2018). Needless to say, he contributed many articles on completely different themes during this period as well, e.g., “Nationalism and Economic Policy in the Era of Globalization” (2002), “Endogenous Economic Growth: A New Approach” (2006) and “A Model of Interaction between the Virtual and the Real Economy” (2006) with Kazimierz Laski and Martin Riese.

The papers and books mentioned here by no means exhaust the entire list of contributions Amit Bhaduri has made over the last fifty years in many areas of economics. Even as we speak, his agile mind must be pondering over new ideas and thinking how to render them elegantly for us. To recognise and honour the contributions of Amit Bhaduri, we organised a conference in the Department of Economics at the University of Massachusetts, Amherst, on 22–23 March 2019. Most of the fifteen chapters that make up this *estschrift* were presented in that conference. We now turn to introducing them.

Conflict, demand and economic development: essays in honour of Amit Bhaduri

Faith in the efficiency of the unfettered market mechanism was severely eroded, at least outside the discipline of mainstream economics, during and after the financial and economic crisis of 2008. Simultaneously, interest in non-neoclassical traditions of economics has been on the rise. Students of economics at several universities across the world have been demanding to learn a version of economics that is rooted in their day-to-day experience, experience that indicates that markets may do a bad job in curbing income and wealth inequality, or reducing unemployment, or ensuring stable growth, or bringing about structural transformation of underdeveloped economies. New pedagogical material, such as *The Economy*, an undergraduate economics textbook, are being produced to meet this growing demand.

Over a stellar career spanning several decades, Amit Bhaduri has made a signal contribution in understanding the economy from such alternative, non-neoclassical viewpoints. His work has grappled with questions of aggregate demand, failure of market mechanisms, dynamics of class, persistence of exploitation and the interaction of technological stagnation and underdevelopment, themes that are often ignored in mainstream economics. The chapters in this book are located within a broad heterodox tradition of economics that has been enriched by Amit's work. They seek to understand society and economy from points of view that do not conform to strictures of the neoclassical tradition.

This book contains fifteen chapters, in addition to this Introduction, and is divided thematically into three parts – each dealing with an area of heterodox economics where Amit has made significant contributions. The first part deals with post-Keynesian macroeconomics, the second part engages with classical political economy and the third part contains contributions in development economics.

Post-Keynesian macroeconomics: growth and distribution

Over the years, Amit Bhaduri's work has dealt with various aspects of power – power of landlords over sharecroppers, power of capitalists over workers, power of pro-market ideas. In the chapter “Power, Income Inequality and Economic Growth”, **Amitava Krishna Dutt** skilfully weaves elements of power into a post-Keynesian macroeconomic model. After offering an overview of the various ways in which power has been conceptualised in the social sciences, Dutt develops an innovative macroeconomic model of growth and distribution that incorporates power – operating between capitalists and workers – into its functioning and highlights its sources and consequences. Power, conceived relationally, impacts the ability of the two classes to push for outcomes in their interest in two distinct struggles captured in Dutt's model: the struggle over the distribution of national income, and the

struggle over the direction of government policy related to expenditure and taxation. Dutt shows that the two-way causal relationship between inequality and power can be the source of macroeconomic instability.

From instability arising from the operation of power, we move to dynamic instability of the Harroddian variety. In the chapter, “Harroddian Instability in Kaleckian Models and Steindlian Solutions: An Elementary Discussion”, **Eckhard Hein** offers a novel perspective on ongoing debates about dynamic instability in post-Keynesian macroeconomics. Roy Harrod’s seminal contributions from the late 1930s have highlighted the possibility of dynamic instability of economic growth in capitalist economies – coming about because of possible divergence of actual from warranted rates of growth (which is the rate of growth needed to realise the desired rate of utilisation of productive capacities). Modern Kaleckian macroeconomics has dealt with this problem by conceptualising the warranted rate as endogenous – which adjusts to the actual rate in the long run – because the rate of capacity utilisation is endogenous. Responding to critiques of this Kaleckian resolution of Harroddian instability, Hein fleshes out two arguments put forward by Josef Steindl. The warranted rate can be partially endogenous because: (a) the capital-output ratio can itself become endogenous through capital scrapping by firms; and (b) the aggregate saving rate can be endogenous through adjustment in government balances. Because such mechanisms exist, Hein concludes, contemporary heterodox economists should not be overly concerned about dynamic instability of the Harroddian variety.

In the chapter “Conflict as Closure: A Kaleckian Model of Growth and Distribution under Financialization”, **Srinivas Raghavendra and Petri T. Piironen** take the debate between Kaleckian and Harroddian strands of heterodox macroeconomics one step further. The key novelty of this chapter is to introduce an important feature of contemporary capitalism into macroeconomic models: the dominance of shareholders in corporate governance. They demonstrate that conflict between shareholders and managers over the profit rate can generate long-run variation in the rate of capacity utilisation. Not only does the capacity utilisation rate vary in the short run – as would emerge from fluctuations of demand – but it also varies in a plausible range of values in the long run – an issue that had been touched upon by Hein in the previous chapter. In effect, therefore, Raghavendra and Piironen offer a modelling strategy that differs from both the Kaleckian – where the actual capacity utilisation rate feeds onto and changes the desired capacity utilisation rate – and the Harroddian – where a desired capacity utilisation rate is taken as given. By offering an alternative to the two dominant strands of contemporary heterodox macroeconomics, this chapter has the potential to generate interesting new conversation on the vexed question of the long-run behaviour of the capacity utilisation rate.

While the question of long-run behaviour of the capacity utilisation rate has been a matter of debate and discussion in contemporary heterodox macroeconomics, there has been little appreciation, if any, of the limitations of

demand-led frameworks for analysing policy issues in developing economies. This is especially surprising when we recall that Kalecki's writings on development economics had explicitly argued that problems of aggregate demand are not the crucial problems faced by developing economies (Kalecki, 1960). The chapter by **Peter Skott** entitled "Aggregate Demand Policy in Mature and Dual Economies", is a much-needed corrective. Skott argues that while aggregate demand matters in both the short and long run, it is important to distinguish between mature and dual economies. In mature economies, i.e. advanced capitalist economies, lack of adequate aggregate demand can be a structural problem – giving rise to tendencies towards secular stagnation – and full employment growth might require sustained fiscal stimulus. But in a dual economy, i.e. an underdeveloped economy with significant reserves of underemployed labour, the key problem is one of structural transformation, i.e. transferring labour from low- to high-productivity work, not of inadequate aggregate demand.

When thinking of long-run growth of capitalist economies, questions of technological change become salient. While the initial literature on neoclassical growth theory conceptualised technological change as exogenous, pioneering contributions by Paul Romer and Robert Lucas in the late 1980s kicked off the endogenous growth literature in mainstream macroeconomics. Bhaduri (2006) offered a different type of endogenous growth model, one that weds the demand-led framework of Keynes and Kalecki to insights on competition and technical change from Marx. The chapter "Competition, Technological Change and Demand-led Growth" by **Subrata Guha** extends Bhaduri (2006). Abstracting from class struggle between capitalists and workers (and its impact on labour-saving technical change), using exogenous income shares between classes à la Kalecki, but endogenising the degree of intra-class competition between capitalists, Guha shows that growth can still be demand-led – even though it also depends on the relative strengths of the two-way causal impact of competition on technical change. In contrast to Bhaduri (2006), Guha's analysis highlights that in models of demand-constrained output, the long-run steady state growth rate of output and productivity that is consistent with steady rates of unemployment are determined by saving/investment behaviour, rather than by competition and technical change.

Perhaps it is not too far-fetched to assert that the political manifestation/programme of post-Keynesian economics is social democracy, especially its Northern European, postwar variety – a radical version of which can be traced all the way back to Keynes (Crotty, 2019). But there is an inherent dilemma within social democracy: in the short run, it has to shore the very institutions that it wishes to undermine in the long run (Bhaduri, 1993). In the chapter "The Economics and Politics of Social Democracy: An Update", **Servaas Storm** extends Bhaduri's (1993) insightful analysis of the question to understand the failure of New Labour in Europe, and to think of strategies for renewal after the financial crisis of 2007–08. After providing a

historically informed analysis of the limitations of the New Labour experiment, Storm contends that a resurgence of social democracy must build on at least four ideas: (a) an outright rejection of the mainstream new consensus macroeconomics (NCM), (b) an equally forthright rejection of the putative trade-off between growth and equality, (c) an open acceptance of public discussion, instead of the fabled market mechanism, to solve difficult issues of public policy, and (d) reigning in the power of finance. An interesting alternative that Storm does not discuss is revolutionary socialism – which is not prisoner to the dilemma that plagues social democracy, because it keeps the long-term goal of transcending capitalism at the centre of its political vision, unlike social democracy which forsakes it for short-term gains (Wolff, 2020).

The last chapter in this section, “What Is the Impact of an Exogenous Shock to the Wage Share? VAR Results for the US Economy, 1973–2018”, by **Deepankar Basu and Leila Gautham**, presents econometric analysis of an issue that has been hotly debated in contemporary heterodox macroeconomics: wage-led versus profit-led growth. The seminal contribution in Bhaduri and Marglin (1990) established that capitalist economies can be either wage-led or profit-led in terms of both demand and growth. In the former case, a shift of income in favour of wages will lead to higher demand and growth; in the latter case, the opposite will hold. Bhaduri and Marglin (1990) demonstrated that there is no *a priori* reason to believe that capitalist economies are either wage-led or profit-led; the determination – for particular economies – will need to be empirically verified. While a large literature has investigated the empirical question, the results have often suffered from lack of careful attention to questions of identification. Since changes in wage share can be impacted by changes in demand and economic growth, ascertaining the impact of a change in the former on demand (capacity utilisation rate) and growth (rate of growth of real GDP) is a non-trivial econometric problem. Basu and Gautham draw on a methodology developed by Christiano, Eichenbaum and Evans (2005) to investigate the effect of an exogenous change in the wage share on demand and growth. Using data for the US economy between 1973 and 2018, they find evidence in favour of profit-led demand and growth.

Classical political economy: conflict and exploitation

Amit Bhaduri’s initial work – during and immediately after his PhD – was on classical themes related to the Cambridge capital controversy, which drew insight and inspiration from the work of Piero Sraffa. The chapter “Superhuman Efforts” and the Theory of Value and Distribution: Sraffa on Pareto” by **Heinz D. Kurz** is in this vein and discusses an interesting question in the history of economic thought: the relationship between Sraffa and Pareto. Drawing on unpublished notes and manuscripts left by Sraffa, Kurz – the general editor of Sraffa’s works and correspondence – argues that Sraffa benefited from his critical engagement with Pareto. Pareto’s critique of the “literary economists” offered Sraffa an opportunity to develop his own system

of equations about value and distribution. Thus, while it might be futile to search for the origins of Sraffa's equation system, it is nonetheless useful to know of Sraffa's engagement with Pareto and the role it played in Sraffa's development as a classical economist.

There is a popular misconception in heterodox economics that issues of aggregate demand are not seriously dealt with in classical-Marxian political economy. One only need to study the debate between Rosa Luxemburg and Tugan-Baranovsky to disabuse oneself of this misconception. In the chapter "Rosa Luxemburg, Mikhail Tugan-Baranovsky and the Current State of Economic Crisis", **Tracy Mott and P. Sai-wing Ho** revisit this debate and draw some interesting conclusions about the current economic crisis. Luxemburg had conceptualised a capitalist economy as forever short of adequate, internally generated aggregate demand; hence the need for export markets. Tugan-Baranovsky's critique of Luxemburg pointed to the role of investment expenditure as a possible source of demand, which, if of the right magnitude, could solve the problem of aggregate demand. Kalecki's review of the Luxemburg-Tugan-Baranovsky debate highlighted the shortcomings of both positions – though he was more sympathetic to Luxemburg's than to Tugan-Baranovsky's argument. While postwar Keynesian demand management through fiscal policy has been thought of as a robust way to solve the problems Luxemburg and Tugan-Baranovsky grappled with, Kalecki's political business cycle theory points to the limitations of such demand management strategies as well. Drawing on Kalecki's work, Mott and Ho argue for a radically different macroeconomic strategy for stabilising a capitalist economy: public control over the aggregate profit margin.

While public control of profit margins might be a way to stabilise an advanced capitalist economy, economic development in the periphery – erst-while colonies and semi-colonies – requires a rather different type of public intervention. In the chapter "Some Reflections on 'Primitive Accumulation'", **Rune Skarstein** engages with Amit Bhaduri's recent writings on the process of development in India. The end of the Cold War has seen the consolidation of an aggressive, virulent form of capitalism – built on privatisation of public assets, globalisation of production and finance and significant weakening of the welfare state. In developing countries, this neoliberal form of capitalism has used the state to get hold of resources like land, minerals, water, for a song. This resource grab has meant dispossession of large sections of the most vulnerable segments of the population in these countries (like India). Skarstein uses Marx's concept of 'primitive accumulation of capital' to understand this resource grab-led development, and given its brutality and inequality-inducing outcomes, argues for an alternative, more humane and just form of development: democratic socialism.

Economic development in the periphery has to address the agrarian question – because of the preponderance, still, of the agricultural sector in the aggregate economy, especially in terms of employment. In the chapter entitled "A Model of the Marxist Rent Theory", **Debarshi Das** fleshes out important

pieces of the theory of ground-rent developed by Marx in Volume III of *Capital* and uses it to discuss conditions of stagnation in Indian agriculture. In this chapter, Das offers a careful reading of Marx's theory of ground-rent but, more importantly, formalises key ideas of Marx into a coherent and precise theory. Following Marx, Das shows that the total ground-rent on any plot of land can be decomposed into three components: differential rent of the first variety (*DRI*), differential rent of the second variety (*DRII*) and absolute rent. *DRI* arises from differences in quality of plots of land; *DRII* arises due to multiple units of capital invested on the same plot; and the source of absolute rent is the lower-than-average organic composition of capital in agriculture. After developing the theory, Das uses it to offer insights about the continued stagnation in Indian agriculture.

Development economics: duality and underdevelopment

Amit Bhaduri has made many important contributions to the study of underdevelopment, especially its agrarian aspects. Building on Bhaduri (1985), the chapter "Rural Poor or Peasant-Proletarians: Agrarian Change and Labour Markets in Eastern United Provinces in the Colonial Period" by **Ramaa Vasudevan** discusses different modalities of labour migration in two contiguous districts of Eastern UP. While the focus in Bhaduri (1985), which had also studied UP, was on the land market, Vasudevan shifts the emphasis to the labour market. The chapter traces the historical evolution of regimes of labour in Gorakhpur and Basti – both districts in Eastern UP – and shows how differences in the pattern of migration impacted on class formation at the source of migration. Gorakhpur saw migration primarily to industrial centres, which facilitated the emergence of a class of peasant-proletarians. On the other hand, Basti witnessed indentured and other types of contract migration, which prevented any dynamic effects from spilling over into rural areas. In both cases, of course, peasants kept their attachment to land intact, foreshadowing the precarious, informal labour of contemporary times.

The next chapter discusses the dynamics of dualism, paradoxically it would seem, in the context of the US economy. In the chapter, "Rising Inequality and Dualism in the US Economy: Evidence and Potential Explanations", **Ivan Mendieta-Muñoz, Codrina Rada and Rudi von Arnim** discuss two important features of the postwar US economy: shift in the trend of the labour share of income and rise of structural dualism. Using a Divisia index decomposition methodology for fourteen component sectors of the US economy, the chapter identifies the manufacturing sector as playing a dominant role both in the Golden Age (1948–1979) and in the Neoliberal Era (1979–2017). Even as its share in employment declined in the first period, growth of real compensation moves in lock-step with the growth of labour productivity; in the second period, on the other hand, real compensation lagged far behind the growth of labour productivity. Structural dualism manifests in the shift of labour towards stagnant sectors with low productivity, a trend the authors

identify as a “reverse Lewis” shift, where stagnant sectors function as labour sinks, and labour in the dynamic sectors experience slow real wage growth. The chapter ends with some ideas about the role of aggregate demand in facilitating structural transformation.

The next two chapters discuss concrete issues of policy within the context of contemporary debates about economic growth and development. In the chapter entitled “India’s Growth Story: A Model of ‘Riskless Capitalism?’”, **Rohit Azad and Prasenjit Bose** focus on India’s growth experience with the initiation of the neoliberal economic reforms in the early 1990s. Both supporters and critics of the economic reforms in India agree that it has had a salutary effect on growth – the difference among the viewpoints rest on the socio-economic aspects of growth, whether it increased inequality, and whether it improved broader measures of well-being. In this chapter, Azad and Bose take a different route and look more closely at the two episodes of growth acceleration in the post-reforms period, 2003–2007 and 2009–2010. After establishing the crucial role of credit expansion – through the banking sector but also supported by external debt finance – in sustaining the two booms, the authors use a Kaleckian macroeconomic model to explain the trajectory of growth. The analysis of the chapter highlights the instability of the growth trajectory where small shocks can pull the economy either into a low growth path (stagnation) or increase pressure on the domestic public banking sector’s balance sheets.

In the final chapter entitled “Supporting Domestic Development through Coordinating the Promotion of Domestic Value Chains”, **P. Sai-wing Ho** engages the recent literature on global value chains. Ho sees a return and reaffirmation of neoliberal economic thinking in the current emphasis on global value chains as a tool for economic development – which ultimately facilitate liberalisation of trade and investment. Countries need not concern themselves with industrial policies to promote development, an important strand of contemporary thinking argues. All they need to do is encourage their firms to find a foothold within some global value chain. Rapid productivity growth, followed by income growth and aggregate economic growth, will follow, so the argument goes. This chapter highlights the deficiencies of such strategies for economic growth. Building on dynamic insights from Adam Smith and Albert Hirschman, the chapter argues for an alternative strategy where generation of domestic demand takes precedence over the search for export markets. In this alternative strategy that the chapter proposes, a reoriented value chain structure that focuses on the domestic market – rather than the global economy – can be a valuable for fostering stable economic growth and robust employment.

In lieu of a conclusion

Amit Bhaduri is a leading heterodox economist of the postwar generation. The chapters in this volume reflect on, engage with and try to extend his pioneering contributions in some of the sub-fields of heterodox economics

that he has worked on. It is heartening to note that the heterodox tradition in economics in general and the three particular sub-fields emphasised in this volume have seen a lot of interesting work over the past few decades – work that has been inspired by and extends the ideas and insights of Amit Bhaduri.

For the benefit of readers who want to engage with this emerging literature, we would like to briefly discuss some recent work in the three sub-fields that has been the focus of this volume: post-Keynesian macroeconomics, classical political economy and heterodox development economics. It is not our intention to present a comprehensive survey of this large and growing body of research in heterodox economics. In fact, that is not even possible within the confines of this introductory note. Hence, what we discuss here is necessarily an idiosyncratic take, driven by our own interests and expertise and limited by considerations of space, on an emerging body of research in heterodox economics.

Recent research in post-Keynesian macroeconomics has seen some very interesting debates. Here we would like to mention some issues/sub-areas that have seen significant work. The first issue that has been the focus of intense research and discussion is the question of whether capitalist economies are best characterised as wage-led or profit-led, both in terms of aggregate demand and economic growth. If an economy is wage-led in terms of demand and growth, then an exogenous shift in the distribution of income in favour of wage income will boost demand and growth; if the economy is profit-led, an exogenous shift of income towards wage earners will have the opposite effect – it will reduce demand and growth. This issue had entered heterodox macroeconomic discussions with the seminal contributions of Amit Bhaduri and Steve Marglin in the late 1980s. It has spawned a large, and possibly growing body of literature, but disagreement among scholars persists – please see Oyvat, Öztunali and Elgin (2020) for a review of the literature.

The second issue that has seen a lot of interesting work relates to the conceptualisation of capacity utilisation in the long run. Ranged on one side of the debate are scholars of neo-Kaleckian persuasion who argue that capacity utilisation is variable even in the long run; hence, they argue, there is no justification for the concept of a ‘normal’ or ‘desired’ rate of capacity utilisation. On the other side of this debate are scholars who, using a variety of arguments, believe that capitalist economies return to a ‘normal’ rate of capacity utilisation in the long run. The debate on this issue remains unresolved, and the interested reader can turn to Nikiforos (2012), Volume 63, Issue 1 of *Metroeconomica* (a special issue on Kaleckian growth theory), chapter 12 in Foley, Michl and Tavani (2019) and chapter 6 in Blecker and Setterfield (2019) for a flavour of the contributions.

The third sub-area that has seen interesting contributions lies at the intersection of finance, inequality and corporate governance. The evolution of capitalist economies since the early 1980s has been marked by growing financialisation, dominance of shareholder corporate governance and a

rising inequality in the distribution of income and wealth. Heterodox macroeconomists have been attentive to these developments and had started incorporating them in their models even before things came to a head with the financial crisis of 2008. Two interesting and related directions in which heterodox macroeconomic models have developed in response to these developments are: (a) incorporating a third class, over and above capitalist and workers, in macroeconomic models; and (b) incorporating financial dynamics within macroeconomic models. Incorporating a third class (or group of income earners) has allowed heterodox macroeconomics to go beyond the functional distribution of income and to study the macroeconomic effects of inequality of income between workers, capitalists and supervisors/managers. Incorporating financial dynamics has often gone hand in hand with paying close attention to the corporate structure and to explicitly take account of equity and debt financing of corporate investment. This is an active area of research, and the interested reader can turn to chapter 7 in Blecker and Setterfield (2019) and chapter 15 in Foley, Michl and Tavani (2019) for an introduction to ongoing work.

While the three sub-areas have seen both theoretical and empirical work, it would be useful to discuss the latter separately. This is because heterodox macroeconomics in general and post-Keynesian macroeconomics in particular has seen a lot of interesting and important empirical work over the past few decades – some of them falling outside the three sub-areas. As we have already mentioned, an active area of research has been the analysis of wage-led and profit-led regimes of demand and growth. On this topic, much of the work has been empirical (see, for instance, Barbosa-Filho and Taylor, 2006). The chapter in this volume by Deepankar Basu and Leila Gautham provides a survey of the discussion. Disagreement remains about whether most capitalist economies are wage-led or profit-led in terms of demand and growth. Oyvatt, Öztunali and Elgin (2020) report that in their sample of 41 countries, 21 are wage-led and the rest profit-led. They also analyse the impact of wage inequality, trade openness and higher household debt on the probability of economies being wage-led or profit-led.

A second area of interesting empirical research has been related to important features of the neoliberal era: financialisation and the increasing dominance of shareholder orientation of firms. The key questions analysed by this literature are the following: How does one measure and quantify financialisation? What is the impact of financialisation and shareholder dominance on the real economy, especially its impact on capital accumulation? Orhangazi (2008) was an early contribution in this area and was significantly extended by Davis (2018). The general finding in this literature is that financialisation and the increasing shareholder orientation have negative impacts on real investment, a finding that is in line with the seminal qualitative research on these issues by William Lazonick (see, for instance, Lazonick, 2014). The interested reader might turn to Davis (2017) for a survey of the empirical literature on financialisation and capital accumulation.

A third sub-area that has seen some interesting empirical work relates to cyclical growth. While mainstream economics has developed an elaborate framework to explain cyclical fluctuations in aggregate economic activity as a result of the accumulation of stochastic shocks, the heterodox tradition has a long tradition of understanding cyclical fluctuations as being generated endogenously by the economic system. One prominent model that captures this intuition is the Goodwin model. In this model, first formulated in the late 1960s by Richard Goodwin, the wage share and the employment rate interact non-linearly in a predator-prey type of dynamical system to generate, under certain parameter restrictions, a perpetual cyclical path for both the wage share and the employment rate. Building on and extending earlier contributions, Grasselli and Maheshwari (2018) test and find evidence in support of a modified Goodwin-type model in a sample of 10 advanced capitalist economies for the period 1960–2010.

The state of debate in classical political economy can be discerned from two recent contributions: Hahnel (2017) and Cogliano et al. (2018). The fault lines in this area remain the same as those established in the 1970s with the contribution of Steedman (1977). The Sraffian tradition argues against the labour theory of value – on the grounds that it is redundant, and even misleading, to the study of capitalism. Hahnel (2017) is a re-statement of that position. In addition to the standard Sraffian argument, it also offers an engagement with the question of environmental degradation from a Sraffian standpoint. Cogliano et al. (2018) presents a sophisticated rebuttal of many Sraffian claims from a Marxian standpoint. Building on seminal contributions of Peter Flaschel (1983), Cogliano et al. (2018) develop a labour theory of value that is free from many of the problems associated with its standard interpretation. Such a labour theory of value, the authors show, can deal consistently with joint production and fixed capital – something which the standard interpretation is not capable of doing.

Classical political economy has also seen some interesting empirical work in recent decades (for a brief survey, see Basu, 2017). The first area in classical political economy that has seen substantial empirical work relates to the debate between Marxian and Sraffian economists about the labour theory of value. While many Marxian economists accept the Sraffian analysis of prices of production, they claim that the deviation of relative prices (of production) from relative labour values are small in actual capitalist economies. The reason for this is that the interconnectedness of different industries reduces the magnitude of deviation between relative prices and relative values – which would have otherwise been large, given the variation in the organic composition of capital across industries. Hence, claim Marxist economists, one should turn to empirical analysis to choose between Sraffian and Marxian analysis. The survey in Basu (2017) reports that most empirical analysis finds the deviation between relative prices and values to be small – even though there are some methodological problems in the existing studies.

The second area that has seen much empirical work in the classical political economy tradition relates to profitability analysis. The motivation for much of this work relates to the central role of the profit rate in capitalist dynamics, especially insofar as it governs the crisis tendencies of capitalist economies. Starting with the seminal contribution of Weisskopf (1979), a large literature in Marxist economics has carried out decomposition analyses of the profit rate – both from a short-run and a medium-run perspective – to identify crisis tendencies and their underlying drivers for different countries and periods (for references, see Basu, 2017). An important limitation of this strand of Marxist literature is that it cannot address questions of causality. Because it is based on a decomposition of the profit rate, such analyses can at most identify important components that drive movements in the rate of profit – it can neither analyse the causes of movements in the rate of profit nor can it test the causal impact of the profit rate on capital accumulation.

The third area in classical political economy that has seen some recent empirical work is the sub-area of classical-Marxian growth theory. Pioneering work by Duncan Foley and Tom Michl (1999) highlighted an important difference between neoclassical and classical-Marxian growth theory. While the former posits the equality of the real wage rate and the marginal product of labour, the latter allows them to be different. A recent literature has tested these alternative hypotheses about the relationship between the real wage rate and the marginal product of labour (Michl, 2009; Basu, 2010; Campbell and Tavani, 2019). This literature shows that there is overwhelming support against the neoclassical view of income distribution.

While there has been interesting and important work in growth theory from the classical-Marxian and post-Keynesian perspectives, they suffer from a serious shortcoming. Just like the neoclassical and endogenous growth models of mainstream economics, most of the classical-Marxian and post-Keynesian growth models are for a one-sector capitalist economy. Perhaps because of this reason, both classical-Marxian and post-Keynesian growth theory has seen very little work that attempts to answer two key questions of economic development: (a) Why are some countries so much poorer than others? (b) Why do some countries manage to grow so much faster than others over long periods of time? The first question is about explaining the variation in per capita (or per worker) income *levels* across countries; and the second question is about explaining the variation in long-run *growth rates* across countries.¹ While much work has been done to address these questions in the neoclassical and endogenous growth frameworks, the answers provided by them remain unconvincing (for a discussion, see chapter 8 in Ros, 2013). Heterodox growth theories – both classical-Marxian and post-Keynesian – have an opportunity to make a significant contribution to our understanding of the world if they can provide plausible and convincing answers to these fundamental questions of economic growth,

While heterodox growth theories of the classical-Marxian or post-Keynesian varieties have not yet made much headway in explaining

cross-country variations in either the levels of growth rate of per capita income, another strand of heterodox economics – which we will call heterodox development economics – has made significant progress in this direction. Interesting and important work in heterodox development economics has been brought back into discussion by Ros (2000) and Ros (2013). Heterodox development economics departs from the neoclassical tradition in two significant ways. First, while neoclassical (and endogenous) growth theory study questions of economic growth in a one-sector mature capitalist economy (just like classical-Marxian and post-Keynesian growth theory), heterodox development economics moves away from this perspective with the recognition that developing economies comprise of at least two distinct sectors: a modern, capitalist sector and a non-capitalist, traditional sector. While the initial theorists in the classical development economics tradition visualised the modern-traditional division as being coterminous with the industry-agriculture (and urban-rural) division, the traditional sector can be expanded to include an informal sector (located both in urban and rural areas).

The second way in which heterodox development economics departs from neoclassical orthodoxy is by recognising that aggregate demand can have long-run growth implications (in this respect, it is close to post-Keynesian growth theory). While incorporating the role of aggregate demand, heterodox development economics recognises key ways in which context is important. In a mature economy, aggregate demand deficiencies can be addressed with fiscal and monetary policies. On the other hand, aggregate demand problems show up as various types of structural constraints in a developing economy, like wage goods constraint, foreign exchange constraint, etc. Hence these aggregate demand problems cannot be addressed with the tools of fiscal and monetary policy alone. They can be addressed effectively only through policies that facilitate structural transformation (Ros, 2013; and the chapter in this volume by Peter Skott).

We hope that chapters of this book will inspire readers to join efforts at strengthening heterodox economics and contribute towards making the world a more just, equitable and humane place – concerns that have animated Amit's work over the decades.

Note

- 1 There is one strand of post-Keynesian macroeconomics that has much more to offer on these two questions. These are the export-led cumulative causation (ELCC) approach and the balance of payments constrained growth (BPCG) approach (for details, see chapters 8, 9 and 10 in Blecker and Setterfield, 2019). The ELCC approach ignores balance of payments constraints, which might be relevant for many developing economies. The BPCG approach suffers from both theoretical and empirical problems (for details, see Blecker, 2016). In our opinion, this strand is certainly best positioned within the heterodox tradition to tackle questions of income level and income growth variations across countries. Unfortunately, we do not have the space to review this strand of literature in greater detail in this introductory note.

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