

Lecture 16: The Cambridge controversy, interventionism

In this lecture, we first carry on from the Harrod-Domar model of growth, which ran into the knife-edge problem and couldn't represent a useful way of approaching the phenomenon of economic growth. The neoclassical growth model presented an alternative, and it fitted well with the so-called neoclassical synthesis proposed by Samuelson: The neoclassical model of markets would explain how prices are formed and how they can be manipulated if necessary, and the Keynesian macroeconomics could be used to secure that full employment, allowing the microeconomic part to function smoothly.

However, all was not well with the neoclassical approach to macroeconomic growth, with factor remuneration determined by marginal productivity, and the problems of defining capital gave rise to the so-called Cambridge controversy. We look briefly into this, postponing a treatment of Sraffa (one of the main figures in the controversy) to next lecture (and Lecture Note).

Following this, we comment on the period of Keynesian dominance following World War II with Paul Samuelson as one of the main theorists of this period. Even though the period witnessed an unprecedented increase in production and consumption, some of the shortcomings of the original Keynesian model became manifest, and eventually a reaction set in.

We conclude with some comments on the system of National Accounts, one of the major achievements of the postwar period, also mentioned in B&D.

We read: B&D, chapters 3-5.