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ANALYTICAL POLITICAL ECONOMY

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This special issue collects 11 surveys on recent developments in Analytical Political Economy. Originally a branch of moral philosophy, political economy emerged as an autonomous discipline during the early stages of the industrial revolution, thanks to the analyses of French physiocrats and British classical political economists. It can be loosely defined as the social science that studies the production and distribution of wealth in a capitalist market economy. Abandoned in favour of the more neutral 'Economics', nowadays the term is still used to indicate approaches to economic analysis that lie beyond the boundaries of mainstream, neoclassical analysis rooted in the Walrasian general equilibrium tradition.

Contributions gathered in this volume survey a wide variety of topics and belong to different schools of thought. They are grouped together as they all review recent formal, rigorous economic research – both theoretical and empirical – that rejects at least some of the defining features of neoclassical economics; hence the name Analytical Political Economy.

Despite the heterogeneity, we can use some broad categories to describe the surveys comprised in this special issue. Papers by Reiner Franke and Frank Westerhoff, Corrado Di Guilmi, and Michalis Nikiforos and Gennaro Zezza deal with topics belonging to Keynesian macroeconomics. One of the fundamental claims of Keynes's analysis is that in a monetary economy there may be no tendency to full employment as investment and saving decisions are taken by different economic actors. In fact, the role of investors' beliefs, expectations and confidence about the future state of the economy is crucial in determining the equilibrium level of employment and economic activity (Keynes, 1936). Franke and Westerhoff review recent approaches to formalize and model 'animal spirits' in macrodynamic models that explicitly reject the rational expectation hypothesis. They do so by developing a canonical framework that is flexible enough to encompass two ways to model attitudes toward optimism and

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pessimism: the discrete choice and the transition probability approach, where individual agents face a binary decision and choose one of them with a certain probability. These assessments are adjusted – either upward or downward – in response to what agents observe, which leads to changes in aggregate sentiment and therefore in the relevant macroeconomic variables.

Di Guilmi surveys the growing literature sparked by the recent cross-fertilization of agent-based modelling and Post-Keynesian macroeconomics. He argues that agent-based modelling is fully consistent with the Post-Keynesian approach and that both areas of research can benefit from mutual engagement. The survey discusses how various models have solved the issues raised by the adoption of the bottom-up approach typical of agent-based models in a traditionally aggregative structure and highlights the novel insights derived from this modelling strategy. The papers reviewed are grouped into four different categories: agent-based models that formalize Hyman Minsky's 'Financial Instability Hypothesis'; evolutionary models with Post-Keynesian features; neo-Kaleckian models with agent-based features; and Stock-Flow-Consistent agent-based models.

Stock-Flow-Consistent models are the focus of the analysis developed by Nikiforos and Zezza. They first illustrate the general features of the Stock-Flow-Consistent approach, forcefully showing that it is a framework capable of accounting for the real and the financial sides of the economy in an integrated way. They then discuss how the core Stock-Flow-Consistent model has been recently extended to address issues such as financialization and income distribution, open economies and ecological macroeconomics.

The two papers by Amitava Dutt, and Daniele Tavani and Luca Zamparelli review the latest developments in models of growth and income distribution. The relation between growth and distribution has been central in political economy since the classical economists – Smith and Ricardo in particular – argued that the accumulation of capital must be financed by saving out of profits. The direction of causality has been later inverted by Post-Keynesian economists, who considered distribution as the adjusting variable, given the Keynesian assumption on the exogenous nature of investment (see Kurz and Salvadori, 1995 for an introduction to the discussion). Both papers develop unified frameworks, which, once coupled with different closures, can describe Classical-Marxian, Kaleckian, and Post-Keynesian heterodox growth models. Dutt extends the general framework to show how recent contributions have enriched the original theories with new topics such as money and inflation, finance and debt, multisector issues, open economy and environmental questions. Tavani and Zamparelli, instead, focus on endogenous technical change and use the unified structure to compare heterodox and neoclassical models of exogenous, semi-endogenous and endogenous growth.

The papers by Maria Nikolaidi and Engelbert Stockhammer, and Leila Davis focus on finance and the financial sector. Minsky's 'Financial Instability Hypothesis' (Minsky, 1986) is arguably the most influential theory of financial markets in non-mainstream economics. It is a theory of endogenous cycles based on debt accumulation by the private sector. Times of economic stability and prosperity make borrowers and lenders progressively underestimate risk. Their optimism engenders an excessive expansion of credit, which, eventually, creates financial bubbles and busts. Minsky's analysis was mostly qualitative but in the latest decades a number of scholars have formalized his intuitions in macroeconomic theoretical models.

Nikolaidi and Stockhammer review these efforts by distinguishing between models that focus on the dynamics of debt or interest, and models in which asset prices play a key role in the evolution of the economy. Within the first category of models they classify: Kalecki–Minsky models; Kaldor–Minsky models; Goodwin–Minsky models; credit-rationing Minsky models; endogenous target debt ratio Minsky models and Minsky–Veblen models. Within the

second category of models, they distinguish between the equity price Minsky models and the real estate price Minsky models.

The work of Minsky is also central in the literature discussed by Davis. She surveys the empirical literature that has studied the effects of the post-1980 expansion of finance in advanced economies, or ‘financialization’, on capital accumulation. After introducing a range of empirical indicators to define what is indeed meant by ‘financialization’, she proposes to use three approaches to categorize the literature on financialization and investment. The first two approaches emphasize rising income flows between nonfinancial corporations and finance: first, growth in nonfinancial corporations’ financial incomes and, second, growth in the payments of nonfinancial corporations to creditors and shareholders. The third approach emphasizes the most developed behavioural explanation linking financialization to reduced investment: shareholder value orientation.

The papers by Deepankar Basu, Simon Mohun and Roberto Veneziani, and Naoki Yoshihara survey a rather different strand of Analytical Political Economy, as they focus on recent advances in Marxian economics. Basu reviews empirical research in Marxist political economy, focusing in particular on: Marxist national accounts, probabilistic political economy, profitability analysis, and Classical-Marxian theories of growth and technical change. He also considers recent empirical studies focusing on the Classical-Marxian theory of relative prices and values, which is at the heart of the other two surveys. The labour theory of value states that the economic value of a commodity is determined by the amount of labour socially necessary to produce it (Marx, 1867). It lies traditionally at the core of Marxian economic analysis; and it is at the centre of innumerable disputes around the so-called “transformation problem,” investigating the relationship between labour values and prices, and exploitation theory. Mohun and Veneziani adopt an axiomatic approach to interpret the ‘transformation problem’ as an impossibility result for a specific interpretation of value theory based on specific assumptions and definitions. They provide a comprehensive review of recent theoretical literature and show that, contrary to the received wisdom, there are various theoretically sound, empirically relevant and logically consistent alternative interpretations of the labour theory of value based on different assumptions and definitions. Yoshihara thoroughly analyses the development of exploitation theory in mathematical Marxian economics from the 1970s till today, with a special focus on the controversies surrounding the relation between profits and exploitation in capitalist economies, and its relevance for the definition of the concept of exploitation.

Finally, the paper by Omar Dahi and Firat Demir focuses on international trade and development economics, and in particular it analyses the cost-benefit literature on South–South versus South–North economic exchanges. After providing a discussion on the definition of the notions of ‘North’ and ‘South’ and offering a statistical overview of South–South economic relations, the paper provides a framework for situating the literature by reviewing the traditional targets of development as well as the benefits and drawbacks of integration into the global economy in both South–South and North–South directions.

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