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Augusto Graziani and Recent Advances in the Monetary Theory of Production

by Giuseppe Fontana (University of Leeds, UK and University of Sannio, Italy) and Riccardo Realfonzo (University of Sannio, Italy)*

Augusto Graziani (Naples, 1933 – Naples, 2014), to the memory of whom this special issue of *Metroeconomica* is devoted, was one of the greatest Keynesian economists of the second half of the 20th century (Costabile, 2015; Fontana and Realfonzo, 2015; Bellofiore and Veronese Passarella, 2016), and is considered one of the founders of the increasingly popular “Monetary Theory of Production”. The past few decades have indeed seen the flourishing of a complex body of writings in the tradition of what Keynes originally called a “Monetary Theory of Production” (MTP) (Keynes, 1933). Building on the works of Keynes and his close followers and colleagues in Cambridge like Joan Robinson, Richard Kahn, and Nicholas Kaldor, but also other scholars like Knut Wicksell (1936, orig. 1898) and Joseph Alois Schumpeter (1934, orig. 1912), the MTP has undergone considerable developments since the 1960s.

Post Keynesian monetary scholars like Paul Davidson and Hyman Minsky took the General Theory (Keynes, 1936) as their main reference point, considering money essentially in its role of store of wealth. On the other hand, the so-called Circuitist scholars (Realfonzo, 2006) like Augusto Graziani, Alain Parguez, and Bernard Schmitt focused more on the Treatise on Money (Keynes, 1930) and the 1937-39 post-General Theory papers, which highlight the role of money as final means of payment. However, recent contributions to the MTP maintain that while this historical distinction is important, for all practical purposes it should not be overstated. Post Keynesians like Davidson and Circuitists like Parguez accept that in modern economies money plays several complex roles, but due to the specific goals of

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their theoretical analyses (see, for details, Fontana, 2000), they have decided to analyse and work out in detail the implications of some, rather than of all, of these roles.

Overall, the MTP rejects methodological individualism advocated by the neoclassical tradition, and adopts a macroeconomic vision of the economy made of firms, commercial banks, workers, financial intermediaries, etc. It proposes a sequential model in which the economic process is described by means of a flow of money into the economy, which allows for both the monetary nature and the conflicting character of the capitalist economy to be highlighted. The main conclusions reached by the MTP are the following (see e.g. Graziani 1987, 1989, 1994, 1996, 2003a, 2003b):

- 1) The money supply is endogenous, and it mainly depends on the demand for loans of creditworthy firms.
- 2) The volumes of production and employment depend on the level of expected aggregate demand.
- 3) The distribution of income depends on the market power of the macroeconomic agents, and especially on the decision of firms which set the price of goods and services.

In the last couple of decades, contributors to the MTP have critically assessed advances in mainstream theory, including the so-called “New Consensus Macroeconomics” (NCM) and Dynamic Stochastic General Equilibrium (DSGE) models, while dealing with new theoretical and empirical issues, including financialisation, financial instability and crisis. Numerous studies have also been made on economic policy, with reference to specific institutional frameworks such as the European Monetary Union. The literature is vast and varied, marked by a great range of methodological approaches, including stock flow consistent and agent-based models. Several contributions summarize these recent developments (see, e.g., Deleplace and Nell, 1996; Rochon and Rossi, 2003; Arena and Salvadori, 2004; Fontana and Realfonzo, 2005; Veronese Passarella, 2017).

Inspired by the work of Augusto Graziani, the papers presented in this special issue of *Metroeconomica* make further advances to the MTP. Some papers deal with the relation between the MTP modelling and the interpretations of the Keynesian principle of effective demand. In this direction, the paper by Claudio Sardonì analyses the nature and functions of money, while the paper by Sergio Cesaratto examines the link between the Keynesian multiplier and the financing of the production process. The paper by Gianfranco Giulioni, Marcello Silvestri and Edgardo Bucciarelli also deals with the issue of the financing of the production process using a micro-founded agent-based model. Other papers deal with the issues raised by financialisation. The paper by Malcolm Sawyer and Marco Veronese Passarella examines the role of banks in modern financialised economies through the use of a stock-flow consistent model, while the paper by Jo Mitchell analyses the issue of the endogeneity of the money supply process in the light of the increasing role of the shadow banking system in modern economies. Finally, the paper by Giuseppe Fontana, Andrea Pacella and Riccardo Realfonzo deals with the coordinated role of monetary and fiscal policy in order to stimulate the economy through the credit market.

Augusto Graziani was an inspiring scholar and a generous teacher for several generations of students, who was never afraid to challenge the accepted views. In an interview he once said, “I disagree with what the American economists call mainstream, the common way of thinking of the majority. The new generation of economists is unfortunately made up of conformists” (Capua 2006). We wish to thank the editors of *Metroeconomica*, the contributors and the anonymous referees for making possible this special issue devoted to him and his non-mainstream views.

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