

## Sraffian Resolution of the Pasinetti Paradox

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*This paper investigates the Cambridge equation of growth and distribution from the standpoint of the theory of value. It is shown that the equation continues to hold good in a generalized form and its paradoxical aspect, viz., its invariance to workers' consumption and saving behaviour stands eliminated. Results of this kind strengthen the possibility that Keynesian theory could provide stronger foundations for the theory of income distribution than marginal productivities of factors.*

### I Introductory

The Cambridge model of growth and distribution [Kaldor 1956, Pasinetti 1962] states that the rate of profit in a closed competitive capitalist economy is completely determined by the rate of economic growth and the capitalists' propensity to consume. This model is considered as a Keynesian alternative to the mainstream marginal productivity theory which states that the rate of profit is determined by the marginal productivity of capital. The marginal productivity theory has been shown to fail outside a one-commodity world. In a world of heterogeneous capital and consumption goods the compositions of goods that constitute the income and the capital stock respectively are likely to be different and so it is impossible to conceive that the ratio of increments in them will be a uniform scalar quantity (i.e., the rate of profit) across all the different industries. The Keynesian alternative too has been criticized on the following grounds:

- (i) the Cambridge equation supposes the value of capital stock to be given exogenously instead of determining it.
- (ii) the equation can also be read the other way around, i.e., the rate of growth is determined by the rate of profit multiplied by the capitalists' propensity to save. The causality can be said to run from the rate of growth to the rate of profit only if the rate of growth is considered to be given exogenously, say, by the rate of growth of population.
- (iii) the equation is paradoxical since it is neither influenced by technology nor consumption/saving behaviour of workers [Samuelson and Modigliani 1966]
- (iv) the equation can be manipulated by the two (or more) classes by simply manipulating their propensities to consume so that the theory of distribution must be surrendered to game-theoretic behaviour [Tobin 1960].