

PRECURSORS OF KEYNES:
MARX, VEBLLEN, AND SISMONDI

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Too often, the examination of the work of a major intellectual figure occurs in an historical vacuum. History has two meanings. One sense is obviously that of the social, political, and economic context within which a specific theoretical development takes place. Would Keynes have written *The General Theory* had England not suffered economic difficulties following World War I and had the capitalist world not all but collapsed in the 1930's? Clearly, his great book was directed toward the Great Depression, and his non-conventional approach to economic theory began certainly by at least 1926 with his essay "The End of Laissez Faire."

The other sense, and that with which I'm concerned here, is that of an historical account of the theory itself. Keynes, nor any other major theoretician, did not arise out of the blue: there are always precursors, whether acknowledged or not. If a theoretical account is designed to actually aid in the examination of phenomena—whether in the natural or the social world—and thus is undertaken with an eye toward objectivity and what we term a scientific approach, there must have been thinkers who investigated these phenomena previously. That is, as any particular phenomenon exists for some period of time (and, if that phenomenon is associated with nature, a very long period of time), it must have provoked questioning. Such questions may have been the result of various problems thrown up by the phenomenon at hand, or might have been the result of what Veblen termed "idle curiosity," a particularly human quality that prompts (some) people to investigate something merely for the sake of investigation. Early theories may well be crude, badly formulated, error-laden, but nonetheless pointing toward a better understanding of the world which is then developed and refined by later thinkers. The atomic theory of Democritus and the land-labor theory of value of Petty are ready examples of such an intellectual process.

It is not necessary that the more developed theoreticians are conversant with the work of their precursors. If that work bears some relationship to reality and the attempt to unravel the mysteries of that reality, it enters into the intellectual public domain and informs, however remotely, later theoreticians. That is, there is a common stock of knowledge on which people draw. In a perfect world this stock would develop in a more-or-less linear fashion, the wheat increasingly separated from the chaff and our understanding of reality becoming better and more sophisticated. Obviously, that is not the world we inhabit. Among other considerations, purposeful distortions have been created to conceal reality in the interests of economic and political power and these interfere with our ability to think clearly and objectively—what a student of social fraud termed "artificial stupidity" (Briffault 1963 [1932]). Nonetheless, reality persists and on occasion calls for a

reexamination of the world that draws on previous thinking that attempted to fashion a rational understanding of existence.

This paper addresses the relationship of three precursors of Keynes, Simonde de Sismondi, Karl Marx, and Thorstein Veblen to the theoretical position advanced in *The General Theory of Employment, Interest, and Money*. Here, I want to briefly survey the similarities among Marx, Veblen and Keynes, then examine the argument put forward by Sismondi a bit more carefully. Most of those in attendance are familiar with the work of the former, but Sismondi tends to escape our notice. I propose that he deserves more attention than he usually attracts.

Before proceeding, a small caveat is in order. I do not argue that Marx, Veblen, and Keynes, much less Sismondi and Keynes, shared the equivalent general theory in their respective analyses of a capitalist order. In most respects, Marx and Veblen delved much more deeply into this social order than did Keynes, thus, drawing out more clearly various underlying relationships. There's probably one very good reason for the greater profundity of Marx and Veblen. Both were not only critical of capitalist society, but also wanted to see it destroyed and replaced by a quite different social order that was claimed to be superior to capitalism, not only with regard to the functioning of the economy in the "provisioning process," but also in allowing humans to reach a fuller potential in terms of the life process. To achieve such an end required a more or less "complete" examination of capitalist society. Keynes's objective was of a smaller order of magnitude. While he certainly was critical of various features of capitalism, his program was basically to save capitalism from itself. And this requires less of a general theory than that of a Marx or a Veblen. Indeed, given the political orientation of Keynes, it might have been best for him to remain mum on various features of such a society.

While there is no indication that Keynes ever read Veblen—the index to his *Collected Writings* has no reference to Veblen, nor to Sismondi—we should be informed that he was aware of the work of some institutionalists, in particular John R. Commons, and saw a marked relationship between Commons' theory of money and his own (Tymoigne, 2003). And Commons' monetary theory is based on the earlier work of Veblen. We do know that Keynes read some of Marx and, as will be argued, incorporated some central aspects of Marx's theory into his own work. And, while there are few references to Marx in the index (eighteen by my count), Marx always lay in the background to Keynes's concerns. For example, "Marxism is a plausible inference from the Ricardian economics, that capitalistic individualism cannot possibly work in practice" (Keynes 1973 [1934], 488). And, in a 1935 letter to George Bernard Shaw, he wrote: "(w)hen my new theory has been duly assimilated and mixed with politics and feelings and passions, I can't predict what the final upshot will be in its effect on action and affairs. But there will be a great change, and, in particular, the Ricardian foundations of Marxism will be knocked away" (Keynes, year [1935], 492-3). We also know that in the 1933 Michaelmas term, Keynes lectured on 'The Monetary Theory of Production, "briefly alluding to the realisation problem of Marx" (Keynes 1973, 420).

There is a secondary literature that examines some of the relationships that I want to discuss; here I mention only the work of Fan-Hung in *The Review of Economic Studies*, Jan Kregel, Randall Wray in the *Journal of Economic Issues*, Adil Mouhammed, and Claudio Sardonì, *Marx and Keynes on Economic Recession*. At UMKC, several recent dissertations merged the theories of Marx, Veblen and Keynes: I reference those of Tae-Hee Jo, Zdravka Todorova in particular.

Given time constraints, I'm simply going to itemize various points of agreement, intersection, and similarity, but cannot develop any particular point to produce a coherent whole. Some readings are provided to allow interested parties to pursue the issue.

THE MAIN RELATIONSHIPS: GENERAL NOTIONS

Marx, Veblen, and Keynes are “embedded” theorists. That is, both saw the economy as an aspect of and integral to a larger societal fabric within which the economy functioned. Unlike neoclassical (and other) theory that portrays the economy as a non-social set of relationships that is controlled by forces akin to natural law, all three argued that the economy itself was constituted by and through social relationships that dictated how and how well capitalism functioned. That is, the economy was under human control and various institutional relationships and ideological structures were necessary to such an organization. As well, some, “imbecilic” (Veblen) institutions could well impede the functioning of capitalism. (See, Crotty, 1999; Henry, 2001)

In this regard, though, Marx and Veblen provides much more of a thoroughgoing treatment of the relation between the economy and larger society than does Keynes. To draw on just one illustration, in his discussion of the growth in militarism, a consequence of the necessity to generate wasteful spending in order to maintain sufficient aggregate demand, Veblen argues that this development promotes increased loyalty to the economic system under the guise of patriotism and increased servility, both of which make it much easier for capitalists to control workers and, thus, shift the distribution of income in favor of capitalists. (See *Absentee Ownership* and, in particular, *Imperial Germany and the Industrial Revolution*)

All three examined the economy within a class analysis framework. In Marx, this is overt and obvious: the main economic classes were defined by their social relationship in the production process and these, of course, were workers and capitalists. Capitalism could not exist without these classes and workers and capitalists existed within a mutually antagonistic relationship.

In the early Veblen, say of the 1904 *Theory of Business Enterprise*, he speaks of “captains of industry” and “captains of finance” as existing in relationship to “the underlying population”—workers and small farmers who are generally conjoined in a hostile relationship to the captains of finance in particular. In the early stages of capitalism, there is some commonality of interest between capitalists and the underlying population as all are interested in maximizing output. With the transition to oligopoly, those interests diverge

and we see the antagonistic relationship dominating the economy. Further, in his 1923 *Absentee Ownership*, small farmers become a much less important element in the analysis, and the main relationship is that of capitalists and workers, as in Marx.

Keynes recognized classes and class relations as determining the essential social structure of the economy. He usually divided society into two general classes—workers (often called the “earning class”) and capitalists, then further divided this second class into the “business class,” or “entrepreneurs,” and the “investing” or “saving” class, labeled “rentiers” in his later works:

For the purpose of this enquiry a triple classification of society is convenient—into the investing class, the business class, and the earning class. These classes overlap, and the same individual may earn, deal, and invest; but in the present organization of society such a division corresponds to a social cleavage and an actual divergence of interest. (Keynes [1923] 1971, 4)

Again, we see a marked difference between our three subjects and neoclassical theorizing which is developed on the basis of the individual; in the current period, the representative agent who is neither worker nor capitalist nor much of anything beyond some maximizing, mathematical entity.

All three were analyzing a capitalist economy *per se*, and all three understood such an economy as a *monetary* economy. What is the significance of this? Neoclassical theory is based on “real” variables where money enters only (or primarily) as a means of exchange. What’s important in this approach is, for example, the production of income in terms of real goods and services using so-called “factors of production,” labor, capital, raw materials. Profit, then—if it’s brought into the discussion at all—represents the entrepreneurs’ share of these goods. For Marx—at least in volume 3 of *Capital*—Veblen and Keynes, the production process begins with money (or credit/debt) and the purpose of production is to produce more money. Capitalists are not interested in their income share in terms of physical production, but simply whether the production process yields a monetary return that is sufficiently high to warrant undertaking that production. Veblen divides the economy into Industrial and Pecuniary employments; Keynes, in *The Treatise*, into Industry and Finance (1971 [1930], 243). Both understand that the financial aspects of capitalism could interfere with and run counter to the production side of the system, thus showing a fundamental contradiction between the production of real goods and the production of money. This was the basis of Marx’s argument that capitalism was its own gravedigger and would exhibit increasing irrationality with regard to the relation of production and financial arrangements. One could bring in the work of Hyman Minsky at this point and address the current financial crisis. One could also add that Keynes’ “rentiers” were similar to Veblen’s “absentee owners.”

Keynes expressly distinguished the C-M-C’, M-C-M’ worlds in a 1933 draft chapter of *The General Theory*, crediting Marx with the initial observation. Further, for Keynes, the basic

problem of capitalism lay in the monetary sector, where “sticky” interest rates was the fundamental issue in preventing full employment. (See Dillard, 1980).

The production of goods and services is carried on for gain, and the output of goods is controlled by business men with a view to gain. ... by the sale of output the business man in industry realizes his gain. To realize means to convert salable good into money values. The sale is the last step in the process and the end of the business man’s endeavor. When he has disposed of the output, and so has converted his holdings of consumable articles into money value, his gains are as nearly secure and definitive as the circumstances of modern life admit. ... The vital point of production with him is the vendibility of the output, its convertibility into money values, not its serviceability for the needs of mankind (Veblen, 1904, 50-1).

The product appropriated by the capitalist is a use-value, as yarn...or boots. But, although boots are, in one sense, the basis of all social progress...yet he does not manufacture boots for their own sake.... Use-values are only produced by capitalists because they are the material substratum, the depositories of exchange-value. Our capitalist has two objects in view: in the first place, he want to produce a use value that has a value in exchange...;and secondly he desires to produce a commodity whose value shall be greater than the sum of the values of the commodities used in its production...His aim is to produce not only a use-value, but a commodity also; not only use-values, but value, not only value, but...surplus value (Marx, N.D. 1867, 207).

The classical theory supposes that the readiness of the entrepreneur to start up a productive enterprise depends on the amount of value in terms of product which he expects to fall to his share; i.e. that only an expectation of more *product* for himself will induce him to offer more employment. But in an entrepreneur economy this is a wrong analysis of the nature of business calculation. An entrepreneur is interested. . . in the amount of *money* which will fall to his share. He will increase his output if by so doing he expects to increase his money profit, even though this profit represents a smaller quantity of product than before. . . .

It is these fundamental divergences at the outset which make it impracticable to start with the classical theory and then, at an advanced stage of the argument, to adapt its

conclusions to the vagaries of an Entrepreneur Economy
(Keynes 1979 [1933], 66-7; 81-3; emphasis in original).

Further, as V and K were analyzing a specific economy, they were not proposing a theory that was universally applicable. Neoclassical theorists claim specifically that their theory is precisely that.

All three of our theorists understood that capitalism had entered its oligopolistic phase of development. Marx's and Veblen's arguments are more developed than that of Keynes, in particular that of Veblen, and I'd recommend reading both *The Theory of Business Enterprise* and *Absentee Ownership*. Though Volume 1 of *Capital* is an examination of a competitive capitalist economy, Marx predicted the growth of oligopolistic structures in his analysis of the tendency for capital to become increasingly concentrated and centralized. In the *GT*, Keynes carries out his analysis in terms of a competitive economy. It has been suggested that this was purposeful in that it made his own argument stronger in that he could demonstrate that even under competitive conditions, a monetary economy was not likely to operate at full employment. Nevertheless, in his 1926 essay, "The End of Laissez Faire," Keynes expressly argued that, since 1871, the economy has undergone its transformation from a competitive to an oligopolistic form of organization. (The year selected is noteworthy as this is the same year Lenin specified as the point in time that marked this transition.)

As capitalism is a monetary economy, capitalists are interested solely in monetary returns (profit). Issues of efficiency, productivity, provisioning, etc. are moot. Hence, all productivity theories of profit, the satisfaction of consumer needs, etc. are irrelevant.

In Marx's analysis, wages are independent of the productivity of labor. Rather, they are determined by the value of labor power or the amount of goods that constitute workers' social subsistence. If labor productivity increases, and subsistence remains constant, this merely increases surplus value and capitalists' profits, but this has nothing to do with the so-called productivity of capital, as in neoclassical theory.

In his "Bohm-Bawerk's Definition of Capital and the Source of Wages," "Fisher's Capital and Income," "Fisher's Rate of Interest," and "On the Nature of Capital," Veblen is very clear in distinguishing capital as a monetary variable and capital goods as the technological equipment of society that is the basis of the provisioning process, and demonstrating that the maximization of profit in the monetary sense is, under modern, oligopolistic conditions, usually incompatible with the production of physical goods and services to provision the larger community. Increases in productivity may well endanger profit, and increases in profit may well be at the expense of larger levels of output. At one point, in criticizing productivity theories of profit and interest, Keynes suggested that we might as well talk of "smell" as "productivity." And, of course, in the *GT*, Keynes is very clear that the search for profit may result in the movement of capital out of industry into purely financial manipulation that reduces the flow of goods available to society.

SOME SPECIFIC THEORETICAL POINTS

For members of our trinity, interest is seen as a purely monetary phenomenon:

“Interest...is eminently a pecuniary phenomenon and its rate is a question of business adjustments....It is therefore an inversion of the logical sequence when Mr. Fisher...explains pecuniary interest and its rate by appeal to non-pecuniary factors” (Veblen, 1909, 298).

True, Marx and Veblen have no theory of liquidity preference, but do understand that businessmen will divert money from productive activities to purely financial activities when the rate of profit isn't sufficient to warrant production at the existing level. Like Keynes, all productivity-based, time-based theories of interest are dismissed from consideration in Marx and Veblen. There's no “natural” rate of interest.

Aggregate Demand: One can find in Veblen and Marx the notion of aggregate demand as $C+I+G+X_n$.

Consumption: in Veblen, conspicuous consumption and emulation are a driving force of expenditure in the economy. Conspicuous consumption (with roots in Smith's notion of “sympathy”) bears a striking relation to Keynes's argument concerning relative wages (income) as the important consideration in determining consumption spending (1973 [1936], ch.2). In Marx, it appears as the “expense of reproduction” in which capitalist must spend on expensive consumption items in order to appear credit-worthy.

Investment: Here, Veblen is inferior to Keynes as he has an inadequate theory of investment. In particular, expectations, while important in Veblen's argument, are not well developed. Veblen does have the concept of the MEC, though. In Marx, investment as a flow is clearly the same as investment in Keynes' theory.

“Whenever the capable business manager sees an appreciable difference between the cost of a given credit extension and the gross increase of gain to be got by its use, he will seek to extend his credit.” (Veblen 1904, 96).

And, in *Theory of Business Enterprise* Veblen anticipates Keynes in arguing that an anticipated reduction in the future rate of interest will lower the marginal efficiency of capital and cause reduced productive activity in the present: capital goods produced today will have to compete with future equipment that will be expected to earn a lower rate of return. In Marx, the tendency is for the rate of profit to fall, though capitalists continually fight this tendency and developing counter-tendencies. The account in Marx is considerably fuller than those of Veblen and Keynes, though all three do argue that capitalism does suffer such a central tendency.

Government Spending: Veblen and Keynes focus on wasteful spending as necessary if the economy is to perform adequately. Keynes's example of pyramid, railroad construction, etc. is equivalent. Veblen goes deeper than Keynes in this regard. He links, in particular, military spending to the control of the underlying population through the promotion of patriotism, etc. In Marx, there are hints of the role of government in volume 3, though this is not fully developed.

Net Exports: again, all three see net exports as contributing to aggregate demand and Keynes was very concerned with Britain's post-WWII position in this regard. Veblen linked this sector to imperialism and the attempts of one capitalist economy to dominate others. In Marx, we see a growth in net exports as one counter-tendency to the falling rate of profit. If one introduces the Kalecki equation at this point, one is reminded that net exports are the final potential source of profit in his model.

With regard to pricing policy, we again see some relationship, though this is weak. For Veblen, price is determined by oligopolistic firms based on their target rate of return. And this requires control over output or the "sabotage" of productive capabilities through the "conscientious withdrawal of efficiency." That is, Veblen introduces a mark-up theory of pricing and links this to the normal functioning of an oligopolistic capitalist economy.

In Keynes, we do not find mark-up pricing as he undertook the analysis in *The General Theory* on the basis of a competitive economy. (Most) Post Keynesians, however, have adopted a mark-up principles of pricing, and both Post-Keynesians and Veblen link pricing to issues of distribution. This becomes very clear in the Kaleckian framework in which inflation is a distributional issue as workers and capitalists fight over shares of income. If workers are relatively strong, capitalists will raise prices (the mark-up) to compensate.

We find nothing comparable in Marx as *Capital* is mainly confined to an analysis of a competitive capitalist economy.

For all three of our theorists, time is important. For Marx, Keynes and Veblen, the inclusion of historical time in their argument part of their respective assaults on neoclassical (or, for Marx, "bourgeois") theory. Here, Veblen is much more developed than Keynes as he incorporated actual, pre- and early capitalist history into his analysis, in part to shed light on the current state of affairs through contrasting the present arrangements to previous societal practices (Eby, 1998). Marx, of course, developed his argument in the context of dialectical or historical materialism.

With introduction of historical time, and thus, uncertainty, equilibrium is ruled out as the normal outcome to which economy tends. While Keynes may appear to be an equilibrium economist in that he sometimes uses the notion of equilibrium as a tool, the argument in the general theory relating the level of actual employment to the state of expectations runs counter to the very nature of equilibrium states in which, in some sense, outcomes are optimal given the constraints.

But, viewing the economy through the lens of historical time raises an even more significant issue. If capitalism moves through history, it must have a beginning, thus an end. Marx is very clear on this point, not only examining the origins of capitalism in *Capital* (and elsewhere), but in predicting its demise based on its own internal contradictions coupled to the growth in the working class that is fostered by capitalist development. Veblen is also clear, arguing in *Absentee Ownership* that capitalism will either retreat to a state of “barbarism” (what we would now term fascism) or advance to a socialist (or cooperative commonwealth) future. Keynes is vague on this matter to be sure. Yet, in “Economic Possibilities for our Grandchildren,” he asserts that the future state of affairs will not be one of a capitalist order. Whether his ruminations in this regard are to be taken at face value is in dispute. Keynes, unlike Marx and Veblen, was not anti-capitalist. He had an aesthetic objection to the way then-current capitalism was functioning and had high hopes for a regulated capitalism continuing into the indefinite future, its rough edges smoothed considerably though significant government intervention in the economy. (And such intervention went far beyond mere tinkering at the level of monetary and fiscal policy. See, Crotty, 1999; Henry, 2001; Kregel, 1985; 1994-95.) Nonetheless, capitalism’s demise follows from the theoretical analysis in *The General Theory*, and if capitalism can be salvaged through an activist government, it would look very little like the capitalism of his day.

ON TO SISMONDI

Jean Charles Leonard Simonde de Sismondi is one of the most neglected of economists. In part, this may be because he does not fit neatly into any specific theoretical category. In part, it may be due to his somewhat confused or contradictory political orientation: while attacking the very nature of a capitalist order, he called for the restoration (or creation) of a “petit bourgeois” (small-scale, peasant-based) form of capitalism. It may be in part due to his “lack of intellectual rigor which was noted by his contemporaries as well as by later commentators” (Sowell, 1972, 62). Or, “because he offered, not the security of dogmatic certainty and clear-cut solutions, but only the tentative prescriptions of historical analogy and pragmatic experiment” (Hyse in Sismondi 1991 [1819], xlx). Or, this neglect might well be the result of Sismonde lying outside the increasingly conventional, neoclassical line of theorizing that was unfolding in the period following Ricardo. This point requires a word of explanation.

Marx, as is well known, was a close student of the development of political economy and his *Theories of Surplus Value* well evidences his attention to the details of specific theories as well as the political orientation of theoreticians and the relation between that orientation and the theories propounded. That is, for Marx, theory could not be “neutral” or “value-free.” All social theory contained a political perspective as all theory was the outcome of intellectual work performed by social actors. As members of a social order, and typically privileged members to boot, theorists carry some social perspective into their work. This does not mean that theory cannot be objectively “correct.” It does mean, though, that all theory represents a point of view.

When Marx undertook his examination of classical political economy, he reached this conclusion with regard to the work of Ricardo:

(England's) Political Economy belongs to the period in which the class-struggle was as yet undeveloped. Its last great representative, Ricardo...consciously makes the antagonism of class-interests, of wages and profits, of profits and rent, the starting-point of his investigations, naively taking this antagonism for a social law of Nature. But by this start the science of bourgeois economy had reached the limits beyond which it could not pass. Already in the lifetime of Ricardo, and in opposition to him, it was met by criticism, in the person of Sismondi (Marx, N.D. [1867], 24).

Marx's fundamental criticism of Ricardo's theoretical analysis of capitalism was Ricardo's lack of historical sense. Thus, capitalism exists in an historical vacuum and its various economic relationships appear to be universal, thus "natural." However, with the third edition of *Principles* and the addition of Chapter 31, "On Machinery," (1821) Ricardo raised the possibility that the continued advance of technology and the introduction of labor-saving machinery *could* adversely affect the well-being of the working class, by this time the majority of the population, thus calling into question the supposed progressive nature of capitalism. The "machine question" was now on the table.

And with this theoretical and political break with previous classical political economy, economics itself becomes distinctly politicized. Thus entered the "hired prize-fighters" peddling their "vulgar" economic theories. George Scrope, Samuel Read, Nassau Senior, et al. assisted by the popularizers Harriet Martineau, Jane Marcet, Richard (Bishop) Whately, and Frédéric Bastiat strove mightily to defend capitalism and capitalists' (and landlords') interests. Opposing them were the so-called "Ricardian Socialists" (who were neither) William Thompson and Thomas Hodgskin, the various "utopian socialists" such as Robert Owen, Charles Fourier, and Henri de Saint-Simon. The study of economics becomes a battle ground between those attempting to defend the existing state of affairs and those challenging that state and promoting an alternative to capitalism, however disheveled or theoretically incoherent that alternative may have been. (See, Berg, 1980; Claeys 1987; Henry, 1990; McNally, 1993.) Into this war of ideas stepped Sismondi.

Best known as an historian of both Italy and France, Sismondi began his economic investigations in 1803 with his *De la Richesse Commerciale*, something of a systemization of Adam Smith's *Wealth of Nations*. More important, and representative of Sismondi's departure from Ricardian orthodoxy is his 1815 "Political Economy" written for Brewster's *Edinburgh Encyclopaedia* (reprinted in book form under the same title). His "full" analysis of a capitalist economy appears in the 1819 *Nouveaux Principes d' Economie Politique*. (See, Mignet 1848 for a fulsome commentary on Sismondi's life and works.)

Here, I do not wish to develop a full-scale treatment and analysis of Sismondi's theoretical system (see, Bleaney 1976, Grossman 1924, Sowell 1972 for somewhat differing positions

on this). Rather, I focus on a number of points where Sismondi points toward the analysis found in *The General Theory*.

The first point concerns Keynes's admiration for the Malthusian theoretical system (as opposed to that of Ricardo): "If only Malthus, instead of Ricardo, had been the parent stem from which nineteenth-century economics proceeded, what a much wiser and richer place the world would be to-day!" (Keynes 1972 [1933], 100-101.) Now, without going into a detailed analysis of the Malthusian system and its errors (see, Bleaney 1976, 42-56 for a cogent criticism), nor Keynes's reading of the history of economic theory, the main point behind Keynes's commendation is Malthus's rejection of Say's Law or the notion that a capitalist economy (if one can term Say's economy as "capitalist") contains an internal equilibrating mechanism that will assure sufficient aggregate demand at a full employment level of output. Keynes recognized that, in addition to being a theoretically untenable argument, Say's Law represented a political perspective, one that he did not share:

That it could explain much social injustice and apparent cruelty as an inevitable incident in the scheme of progress, and the attempt to change such things as likely on the whole to do more harm than good, commended it to authority. That it afforded a measure of justification to the free activities of the individual capitalist, attracted to it the support of the dominant social forces behind authority (Keynes 1973 [1936], 33).

There are two points that the reference to Malthus and Say's Law raise. First, Sismondi also was a critique of Say's Law and his analysis was superior to that of Malthus. Indeed, Marx argues, I think too vehemently, that Malthus's *Principles* was nothing but a plagiarism of Sismondi's *Nouveaux Principes* (Marx 1971, 53). (In passing, and contrary to Sowell's claim [Sowell 1972, 88], Marx had a high regard for Sismondi, and though he found his analysis "defective" in the examination of the conversion of revenue into capital [Marx N.D. [1867], 545], it was Marx's position that "*Sismondi* was epoch-making in political economy because he had an inkling of this contradiction" (of wage labor and capital) [Marx 1871, 259]. While there is no specific section of *Theories of Surplus Value* given over to Sismondi, there are many remarks throughout Part 3 where Sismondi is given [generally] high marks. See also the first volume of *Capital* for similar references to Sismondi's work.)

The second aspect of Keynes's comment that bears mention is that both Keynes and Sismondi were markedly concerned about issues surrounding social justice focusing on income distribution, and Sismondi was more adamant on this score than Keynes. For Sismondi, the main purpose of the economy was to increase the well-being of the population:

We declare, with Adam Smith, that labor is the sole source of wealth; that parsimony is the sole means of accumulating it; but we also add that enjoyment is the only end of such

accumulation, and that there is no increase in national wealth unless there is also a growth of national enjoyments (Sismondi 1991 [1819], 53).

Sismondi “insists that the aim of government in economic matters is not just to ensure the accumulation of wealth and the increase of the powers of production...but to ensure the happiness of the whole society, its poorest members included” (Bleaney 1976, 66).

Starting from his analysis of the hypothetical isolated hunter who works in order to rest, “social man” works so others may rest. As the productivity of labor increases, inequality grows as, if the output resulting from increased productivity were shared equally, workers would choose to work less and rest more. Hence, under capitalist conditions, workers must be forced to work more that they desire to allow the incomes of capitalists and landlords (surplus) to rise. To remedy the growing inequality, government intervention is required:

(T)he rich could increase their fortunes, be it by a new manufacture, be it by taking for themselves a greater part of what was previously reserved for the poor; and in order to regularize that division, to make it equitable, we invoke almost constantly that intervention of the government which Adam Smith rejects. We see the government above all as the protector of the weak against the strong, the defender of him who cannot defend himself, and the representative of the long-term, if quiet, interest of all, against the temporary, if vociferous interest, of each (Sismondi 1991 [1819], 53).

It should be noted that in the early stages of capitalism, many commentators had the same concerns as Sismondi, though from a different perspective. A major issue addressed in the 18th century (in particular) was how to get workers to work harder than they would if they controlled their own means of production in order to generate the surplus (value) that would allow the incomes of capitalists (and landlords) to increase. (See, Perleman 2000, 92-170 for analysis and representative quotes.)

As early as 1927, Keynes spoke to the need for government to intervene in the distributional struggle between capitalists and workers:

It is not only in the direction of the regulation of capital that the state must be prepared for new functions. It must be prepared to regard the regulation of wages of great industrial groups as being not merely of private concern, and it must quite deliberately in its wages and hours policy treat the gradual betterment of workers as the first charge on the national wealth . . . (Keynes 1981 [1927], 646-7).

And, in the concluding chapter of *The General Theory*, we read:

The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes. . . . (W)e have seen that, up to the point where full employment prevails, the growth of capital depends not at all on a low propensity to consume but is, on the contrary, held back by it . . . and that measures for the redistribution of incomes in a way likely to raise the propensity to consume may prove positively favourable to the growth of capital For my own part, I believe that there is social and psychological justification for significant inequalities of incomes and wealth, but not for such large disparities as exist to-day. There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition But it is not necessary for the stimulation of these activities and the satisfaction of these proclivities that the game should be played for such high stakes as at present. Much lower stakes will serve the purpose equally well, as soon as the players are accustomed to them (Keynes 1973 [1936], 372-4)

Keynes, however, stopped short of calling for equality, rather seeing the need for such intervention to be a cornerstone of the preservation of capitalist property relations:

Whilst, therefore, the enlargement of the functions of government, involved in the task of adjusting to one another the propensity to consume and the inducement to invest, would seem to a nineteenth-century publicist or to a contemporary American financier to be a terrific encroachment on individualism, I defend it, on the contrary, both as the only practicable means of avoiding the destruction of existing economic forms in their entirety and as the condition of the successful functioning of individual initiative . . . (Keynes 1973 [1936], 380-81).

Sismondi, on the other hand, promoted a non-capitalist, petty-production (or peasant-based) economy as (vastly) superior to that of mature capitalism, particularly in that (he believed) such an economic organization would generate equality rather than inequality, more efficient use of land, and a better moral character due to the need to conduct oneself in an orderly manner in order to succeed as an independent proprietor In reference to a (supposed) earlier state of affairs:

No social organization guaranteed more happiness and virtue in the most numerous class of the nation, more opulence for all, more stability to public order (Sismondi, 1991 [1819], 143).

Now, one may label Sismondi a “reactionary” in his harkening back to a time when smallholders were the rule rather than the exception. But, such a position was not unusual during the period. Indeed, in the supposed merits of the peasant proprietor one sees not only the Lockean standard for legitimate private property, but also, for example, the Jeffersonian justification of property and its relationship to democracy, at least one form of democracy. From Jefferson’s “Notes on Virginia”:

Those who labor in the earth are the chosen people of God. . . . It is the focus in which he keeps alive that sacred fire, which otherwise might escape from the face of the earth. Corruption of morals in the mass of cultivators is a phenomenon of which no age nor nation has furnished an example. It is the mark set on those, who, not looking up to heaven, to their own soil and industry, as does the husbandman, for their subsistence, depend for it on casualties and caprice of customers. Dependence begets subservience and venality, suffocates the germ of virtue, and prepares fit tools for the designs of ambition. . . . (T)he proportion which the aggregate of the other classes of citizens bears in any State to that of its husbandmen, is the proportion of its unsound to its healthy parts, and is a good enough barometer whereby to measure its degree of corruption (Jefferson, in Padover, 1943, 678).

The notion here is that small-scale property—or self-ownership—produces a specific set of characteristics among the population: hard work, an independent cast of mind, a rough equality, a virtuous body politic that resists corruption and is itself incorruptible. Economic dependence promotes the opposite set of characteristics.

Now, clearly Keynes made no such recommendation. Yet, he too was mightily concerned with the degeneration of moral qualities given the self-interested, money-grubbing nature of a capitalist society. Keynes recognized that the continuation of capitalist society required a social acceptance based on an underlying ideological program. Capitalism is a system that fractures society through its promotion of individualism, greed, and the use of money (income and wealth) as a measuring rod of one’s value to society (Keynes 1972 [1925], 267-9). Its main (perhaps only) claim to survival is economic progress based on efficiency and rising income over time. In the modern period, however, doubt had developed as to the possibility of continued economic success, the ability of capitalism to “deliver the goods” (268).

It is well known that Keynes exhibited a marked disdain for the Soviet experiment and its reliance on the “common man” for the success of that experiment. Yet he did observe in his brief visit to the Soviet Union something in that early socialism that could well overcome any economic inefficiency associated with non-capitalist economic organization—

communism as a “religion” had great moral force which served as a unifying and galvanizing principle that was utterly lacking in capitalist society:

The exaltation of the common man is a dogma which has caught the multitude before now. *Any* religion and the bond which unites co-religionists have power against the egotistic atomism of the irreligious
If irreligious capitalism is ultimately to defeat religious communism it is not enough that it should be economically more efficient—it must be many times as efficient. (267-8)

A new “religion” was needed in the modern period, a new set of institutions, in particular a new ideology that provided a moral underpinning to the very amoral capitalism and a socializing constraint that prevents a rampant capitalism from destroying itself through its own individualist objectives. While Keynes never specified what shape this secular “religion” was to take, it’s reasonably clear that the new ideology was to transcend the destructive and restricting constraints of the “money-motive” ideology. The money-motive, while certainly promoting of material wealth is unable to produce the unifying, galvanizing, public-spirited cohesion necessary to maintain society: indeed, it produces the opposite effect. The “common man” requires some sense of larger purpose beyond that of mere money-making and this sense must be created as a substitute for the lost, mainly religious rationalizations of the previous century.

Sismondi’s analysis of the internal dynamics of a capitalist economy are very similar to that of Keynes a century later. While the first indications of Sismondi’s thinking are presented in his 1815 *Encyclopaedia* article, they are given fuller form in *New Principles*, Book 2, chapter 6. Essentially, “revenue” generates expenditure, this expenditure must exhaust aggregate output; total consumption determines whether the next period’s production is greater or less, and next period’s revenue is generated out of this production (see, Bleaney 1976 for an elaboration of this and what follows). If the proportions between consumption and savings are “correct” (and Sismondi is consistently vague on the correct relations), then all is fine. If the proportions are incorrect, a crisis follows. What Sismondi is groping toward in this is something along the lines of Quesnay’s and Marx’s reproduction schemes.

It is the income of the past year which must pay for the output of this year; it is a predetermined quantity which serves as a standard for the undefined quantity of labour to come. The error of those who urge an unlimited production comes from their mistaking this past income with future income. The have said that to increase labour means increasing wealth, with that, income, and by reason of the latter, consumption. But wealth is only increased by increasing demanded labour, labour that will be paid its hire; and that hire, fixed in advance, is the pre-existing income. After all, the total yearly production can only be exchanged

the entire production of the previous year (Sismondi 1991 [1819], 104).

What we find in Sismondi is the first inkling of a dynamic analysis linking production in period n to production in period $n-1$ and effecting production in period $n+1$. For this aspect of his theoretical analysis, however vague, Sismondi received high marks from Schumpeter: “The distinctive feature of Sismondi’s analysis is that it is geared to an *explicit dynamic model in the modern sense of this phrase*.... Sismondi’s great merit is that he used, systematically and explicitly, a schema of periods...that he was the first to practice the particular method of dynamics that is called period analysis” (Schumpeter 1954, 494, 496; emphasis in original). For the purpose here, the relationship to the later work of Keynes is the incorporation of historical time into the theoretical account of the dynamics of a capitalist economy. But, there certainly are differences between our two theorists with regard to the significance of time. Keynes understood time in relation to his position on money, where “(T)he importance of money essentially flows from its being a link between the present and the future” (Keynes 1973 [1936], 293; emphasis in original). Sismondi did not understand money in Keynesian (or Chartalist) terms where money is a unit of account in which debts are created and cleared:

A money of account comes into existence along with debts, which are contracts for deferred payment, and price lists, which are offers of contracts for sale or purchase. Such debts and price lists . . . can only be expressed in terms of a money of account.

Money itself, namely that by delivery of which debt contract and price contracts are *discharged* . . . derives its character from its relationship to the money of account, since the debts and prices must first have been expressed in terms of the latter. . . . Money proper . . . can only exist in relation to a money of account (Keynes 1971 [1930] p. 3; emphasis in original).

Sismondi, rather, held a more or less conventional view in which money is a veil, a medium of exchange that substitutes for barter and “simplifies” the “processes...which form the progress of a nation” (Sismondi 1991 [1819], 112). Moreover, he was a strict metallist, asserting that paper money was a “fiction” and “can be substituted only for the metallic money already in existence....” (Sismondi 1966 [1815], 92).

There is also an issue in Sismondi’s understanding of the relation between time and the concept of equilibrium. While this is contentious, my position is that Keynes was not, and could not be an equilibrium economist given the importance of time in his argument (as above). While a conventional position is that Keynes did hold to a less-than-full employment equilibrium position, I see this outcome as the economy “getting stuck” with no internal forces causing it to generate a different outcome. For Sismondi, the economy would eventually restore the “proportions” associated with full employment, though this

would most likely take a very long time and workers (and others) would suffer terrible costs in the interim.

Now, though Sismondi's time period analysis is flawed—his presumed relation between last period's profit and this period's investment is incorrect, partly because profits are not the outcome of a single period's production—he does seize on an important truth that directly leads to Keynes. For Sismondi, consumption drives production (Sismondi 1991 [1819], Book 2, Chapter 4). In his argument, Sismondi defines consumption as total spending including investment; what Keynes termed aggregate demand. Hence, Sismondi's theory of an accumulating capitalist economy is demand-driven.

As accumulation takes place, inequality increases. Capitalists substitute machinery (past labor) for living labor in order to produce more efficiently, lower the price of output, and attract more consumers from their competitors, thus, reducing employment (and wages) and working class consumption in the aggregate (Ibid., 303-4). Capitalists find it increasingly difficult to sell their products internally and seek foreign outlets, attempting to increase net exports—one of the sources of profit in the Kalecki model. As well, capitalist consumption, another source of profit, is increasingly directed toward imported luxuries:

If, instead of merely thinking of himself, he makes the same calculation for the national sector of his business, he will see the same calculation again confirmed. Business can expand; but if its expansion leads to a shrinkage of what was previously paid as a wage, and as interest on every thousand francs, consumption will not stay in step with production, and the overall result will never be a great prosperity (Ibid., 305).

Matters really boil down to the problem of the pursuit of self-interests rather than collective interests, a problem clearly noted by Keynes (above). Hence, imbalances in the economy leading to underconsumption crises are generated through the natural workings of the economy, and Sismondi calls on government to undertake active interventionary policies to correct the problem (though he gives indications that he's not all that sanguine about the possibility of government acting in the interests of society as a whole):

The interest of each checked by those of all others would truly be the interest of all; but everyone seeking his self-interest at the expense of others...is not always checked by forces equal to his own; therefore the strongest finds his interest in taking, and the weakest finds his in not resisting him.... In this battle of all interest against each other, injustice can often triumph, and injustice will be...helped by a public power... (Ibid., 305).

On all sides it seems therefore that the action of every individual tends to jam the functioning of the machine. Perhaps the task of government should be to moderate these

movements, in order to equalize them (to maintain the proper proportions among investment, production, wages, profits, and aggregate consumption—JFH) (Ibid., 306).

The last point I want to make here, and this again speaks to a concern of Keynes, is that Sismondi argues that capitalism exercises a corrupting, corrosive force on the population as whole. In words that are similar, though less provocative than those of Marx in *The Communist Manifesto*, and which seem quite prescient in regard to developments in the United States in particular, he addresses the effect profit-making activity has on the moral character of a people:

But the remarkable consequence of this rapid growth in population and wealth in America, and of the tendency of all social institutions to speed up this hurrying over again, is the influence which this mad universal auction has had on the character of the inhabitants. The conservative (i.e., non-profit making, JFH; see 343, fn. 10) part of the nation, the part that guards established customs, has been totally suppressed; there exists no American who does not intend to make his fortune, and a quick fortune at that. Profit making has become the first aim in life; and in the freest nation in the world, liberty itself has been cheapened relative to profit. The calculating business spirit extends down to the children; it subjects real estate to constant speculation; it snuffs out the development of the mind, and inclination for the arts, letters, and sciences; it corrupts the very agents of a free government, who show a not-very-respectable avidity for office, and it imparts to the American character a blemish which will not be easily removed (Ibid., 339).

Hence, capitalism is not to be replaced by a non-commercialized petty- production economy only in order to address the economic crises endemic to such an order, but to save the population from sinking into a moral abyss in which individual interests reign supreme and where money-grubbing is the principal purpose of life.

Conclusion:

To reiterate: my purpose here is not to argue that the theoretical analyses of Sismondi, Marx, or Veblen led directly to that of Keynes, merely that there are points of similarity, overlap, and agreement regarding the nature of a capitalist economy and its society as well as various more pointed analyses regarding the internal workings of such an economy. “Keynesian” ideas predate Keynes. In various ways, Keynes obviously made advances in these ideas; in various ways Marx and Veblen in particular trumped Keynes. Essentially, they were all working toward an explanation of capitalist reality and addressing various problems thrown up by that reality.

Beyond any particulars, where I think students of economics, not to mention those who teach it, can benefit more from an examination of Sismondi, Marx, and Veblen than from Keynes himself is in the realm of what was once called “moral economy.” While all four of our representative theorists clearly expressed some level of righteous indignation in confronting this economic system, the former three were clearly outraged by the normal, anti-social operations of capitalism. Something has been lost. In surveying the world around us, one should ask, “where is the outrage?” An examination of a Marx or a Veblen or a Sismondi should bring that outrage to the fore. One should also ask to what extent the influence of a Keynes has assisted in the quelling of that outrage.

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