Chapter One

The State and Aggregate Demand

Introduction: Development and Growth

This essay examines the role that distribution and public debt play in the determination of economic growth in a developing country. We add the qualifier "developing" because we believe that economic theory (especially macroeconomics) has made significant progress in understanding economic problems of the developed world. The policy implications that follow therefrom are replicated in developing economies showing a lack of appreciation of the differing structural characteristics that distinguish the two sets of economies.

One of the characteristic features of developing economies is the fact several of the markets from labour to financial markets are in formative stages. The existence of dual markets -- one highly advanced and the other still primitive is another feature commonly found in the above economies (Myint 1965). The best example for this is probably the financial market where an informal sector operates simultaneously with an advanced urban sector (Bhaduri 1973, Sarap 1992). While the mechanics of transmission are well understood for the formal sector, the same is not true for the informal sector. At the same time, the informal sector is not so small that it can be ignored with impunity.
In economies like this, where the market is too primitive to function in a similar way as efficient markets should, it may not be incorrect to assume that the market is not the most efficient allocator of resources (Bharadwaj 1994, Patnaik 1995, Rakshit 1982, Chakravarty 1988). This is one of the reasons why in development theory, there has consistently been a notable emphasis on the role of the state as an allocator of resources.¹

Even in advanced capitalist countries where the market is more evolved, some goods and services because of their peculiar nature, are best provided by a public authority, the best example is that of public goods, which are non-excludable and non-rival in nature, e.g. national defence, civil administration, highways, etc (Stiglitz 1989:14-20). The moral of this story is that the economic role of the state cannot be wished away even in developed economies where markets are supposedly efficient. This is doubly so in developing countries where many segments of the market are yet to evolve.

In economies with "under-developed" markets the private sector may not be in a position to undertake the investment efforts necessary for a balanced growth strategy. Historically, the end of World War II signified a change in the world political set-up in a number of ways. For most of what is euphemistically called the Third World, it marked the culmination of nationalist struggles and independence

¹. What we draw from this debate is that with market failures the state is called upon to play the institutional role of the allocator— the visible hand. The Lange-Lerner duality theorem has proved that the state can be as efficient an allocator as the market. And as Tobin (1964) puts it, there is no reason why decentralised opinions expressed in the market should be considered acceptable but public policy as the collective will of the society not acceptable.
from colonial rule. The drain of centuries of social surplus by their colonial rulers to finance the metropolis' industrialisation efforts, led to what has been referred to in the literature as "underdevelopment" in the colonies (Bagchi 1982, Patnaik 1973). The modern state in post-colonial societies has the dual responsibility of being simultaneously a participant and a catalyst in the nation's developmental efforts. Sometimes, public intervention (especially in infrastructure) is a consequence of the state having to fulfil its responsibility of meeting a target rate of growth in developing countries and in a welfarist framework.

Growth theory in its major variants has, however, only concentrated on full-employment economies while developing economies are characterised as labour-surplus. For these countries, economic growth even in its narrow definition, of signifying a mere acceleration of national income, is of great importance. That the society can choose among various growth paths assumes significance for planners attempting to raise the standard of living in the shortest possible time. Mainstream growth theory, has considered unemployment as a transient phenomena -- a deviation from steady state. Therefore, the problem of unemployment has in effect been banished from its domain to that of development theory.

Ehrlich (1990) confirms this: "In more recent decades, growth and development economics have been treated largely as separate subjects of study-- the first seemingly applicable to advanced market economies and the second stressing the role of non-economic factors and market failures in less developed countries".²

² See Ehrlich (1990:s1).
An implicit distinction of economies has been on the basis of whether they are labour-constrained or labour-surplus. While problems of expansion of economic activity in the former was put in the domain of growth economics, that of the latter was developmental economics. So in a certain sense, a country graduated from the domain development economics to growth economics once the problem of the perennial existence of substantial labour reserves was overcome. However, for some economists, the difference between growth and development lies elsewhere. While growth is 'static' in nature and deals "with changes within a structure", development relates to the dynamics (transformation) of the system or structure (Brinkman 1995:1172).

Conceptual differences aside there is a delineation of theoretical apparatus for handling problems of developing and advanced economies. To a large extent we believe that the difference between development and growth lies in the interaction of economic variables with the rest of the economic structure. Since the advanced countries have undergone sufficient changes in their society, there is little need for them to "develop". Problems of poverty, illiteracy, and other such social indicators that are concerns in the Third World have been addressed and attended to in the developed countries. Their main agenda is to maintain and improve growth rates, i.e., per capita income. The problems in the developing world are different. Rarely, therefore, does one come across in the literature any discussion of growth in the context of developing countries. However, one cannot escape this caveat in

3. It is not a coincidence that Rakshit (1982) used the words "labour-surplus" in the title of his book.
"growth" theory by saying that the operative structural changes are more important than changes within a structure for developing economies. Acceleration of national income need not necessarily follow from structural changes and vice-versa.

It is not growth theory alone that suffers on this account; so does its parent subject—macroeconomics. Recent years have seen an increased effort from economists to evolve a relevant macroeconomic analysis for developing economies incorporating the stylised features of the developing world. Growth theory must then also shoulder its own share of responsibility. The above discussion highlights two things. One, there has to be a relevant growth theory for labour-surplus economies quite apart from theories of development. Secondly, governments, which play a pro-active role in most such economies, can and do influence the growth rate. We stress on this because the profession is well aware that "Anything that affects production at a given point of time is also relevant for growth theory" (Sen 1970: 10).

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5 Economic crisis is not unknown even in developed economies, for instance, after the war reconstruction boom unemployment rates have risen. There is of course a debate within the profession as to whether this can be treated as involuntary unemployment at all or not. But the very fact that job-cuts take place on the macro-level should be a sufficient indicator that (given people who were previously employed do not find re-employment once they have got the "golden-handshake") involuntary unemployment exists.
Public Policy, Employment and Growth

It has been a long-standing complaint against received growth models that the above two criticisms are not satisfactorily addressed in its domain. While historically there may have been periods when an economy may have faced labour shortages domestically this cannot be a long term explanation as it could have been easily handled by allowing international immigration into the growth centres from labour-surplus countries (Patnaik 1997). The role of the government either in promoting technological change or in providing “enabling infrastructure” either in the form of human resource development or physical assets which have spill-over benefits, has not been a front-runner on the research agenda.

Pro-active government intervention may take the form of fiscal incentives like tax concessions, or easy liquidity and cheap finance, or may take the form of direct investment. There is far too large a literature on whether government intervention does actually improve matters or it whether it worsens them. We will assume that the market is unable to undertake the desired amount of investment necessary to sustain a certain rate of growth that society desires to achieve, thereby creating the need for the government to intervene directly and undertake a portion of the investment itself. The government may also consider investment to create greater competition if the market is monopolistic in nature. Competition would evidently increase social welfare in such situations. Once the need or justification for government intervention is established, the next item on the agenda for discussion is the mode of intervention. How should the government finance its intervention? There are two options available: increase taxes, or run deficits. The deficits in turn
could be financed either by monetisation (printing notes) or by issuing bonds and other forms of securities (debt financing). Before we go on to a discussion of growth theory in this context, we look at the macro-economic consequences of government intervention especially when it involves deficit and debt.

Functional Finance

Lerner (1943) has suggested the use of the term *Functional Finance* to mean the principle by which to evaluate fiscal policy in terms of what it achieves. He then enumerates the laws of financial responsibility for the government:

a) The government must, by either expansionary or contractionary fiscal policy, maintain current levels of demand such that unemployment and inflation are not adversely affected.

b) Government borrowing must take place when the government wants to exchange bonds for money as a financial asset. If the rates of interest fall too low and this encourages investment which has an inflationary impact, then issue of bonds would help control the situation.

c) In the process of trying to reduce interest rate (by redeeming bonds from the market), the government would need to disburse existing money stocks. In case money stocks are not sufficient to meet the financing requirements, then the government needs to print money.
Essentially the state has a two-fold responsibility: controlling inflation and unemployment. It can do this by managing the rate of interest which governs the investment. When there is low economic activity then it must provide incentive to investors by reducing interest rates (and vice versa) which can be achieved in a closed economy by redeeming existing bonds (and vice versa).

This obviously is in complete contrast to the theory of “Sound Finance” which attempts to balance budgets inter-temporally. Since there is nothing to guarantee that in fulfilling its fiscal obligations, the state would be able to balance the budget, functional finance stands in complete opposition to the tenets of “Sound Finance”.

How should the government raise resources for financing expenditure? The three choices are printing money, debt or taxation. Taxation, Lerner (1943) argues, should be used only when the government wants to check spending by private agents to control inflation. Debt is therefore the preferred mode of financing. Would this lead to issues in sustainability?

As long as agents are ready to lend to the government there is no problem no matter what the size of the public debt. They would agree to part with their money and exchange them for bonds since they planned not to spend but to hoard it. If the agents decide not to lend to the government and also not spend it, then the government would not impose inflationary pressures by financing its expenditures by printing money. It is in these circumstances that the government must resort to monetary financing. If the agents decided not to hoard the money but to spend it, aggregate demand would go up and demand management would be automatically
ensured without the government having to either print money or borrow from the open market. However, if it leads to an upward pressure on prices then the government should, by the above principles of functional finance, tax the agents to control inflationary pressures.

Many like Hansen (1941) have argued that there must be an upper limit to the debt/GDP ratio to avoid an unsustainable rise in debt servicing which has to be financed by taxes. The reason suggested is that the increasing taxes in future due to debt service requirements will hamper private spending and investment. Lerner (1943) finds that this is not a valid criticism against deficit spending especially in times of slowdown. It is very unlikely that an unemployed person would hesitate to seek a job if s/he was told that on receipt of wages s/he would have to pay an interest. It is like saying that in due course the person would pay a large sum of money therefore s/he should remain unemployed which of course is a fallacious argument (Lerner 1943: 46).

He further argues that if there is fear of increasing debt beyond reasonable amounts then the state can print money and ensure full employment. The biggest fear that seize the private investor is that of depression setting in before the investment has paid for itself. So as long as the state guarantees full-employment and therefore a target level of aggregate demand, private investment should be more attractive than ever before. When private investment increases, there would be no need for deficit spending and this would automatically curb any increase in debt. Third, as debt increases so does private wealth and simultaneously the ability to pay taxes which
can be used to finance debt servicing obligations. The increase in private wealth also encourages spending and fuels aggregate demand thereby reducing the need for government demand management.

Classical economists believe that a debt burden arises when borrowing of funds by the government reduces private consumption. The burden is the reduced consumption of the private agents. Once this public expenditure has been made there are no further burdens that accrue on the economy since the reduction in private sector consumption is one shot and is matched by an increase in government expenditure.

Consumption-Investment choice and Debt Burden

Modigliani's (1961) response to this debate was on a different track – while staying within a Keynesian framework he attempted to critique the no-burden, no-transfer position of the Keynesians. His conclusions were a half-way house between the Keynesian and the Classical positions. He argued that the impact of an increase in national debt needed to be evaluated both in terms of the flows and stocks in the short and long run. The Keynesian emphasis on flows and silence on stock changes in the debt debate had led to the impression that debt financing had no adverse impact. If, however, one were to introduce the impact on stock dynamics into the debt analysis then alternative solutions would emerge.

Modigliani was agreeable to the view that the benefits of debt financing accrued to the present generation (or at least a section of it). However, the increased present
consumption could conceivably reduce investment and the stock of assets inherited by the future generation. This reduction in inheritance of capital stocks constitutes a gross burden on the future generation as long as the net marginal product of capital is positive. This is said to hold irrespective of whether the private economy is able to generate full-employment level of demand or not (Modigliani 1961:731). If the interest rate is taken to be a proxy for the marginal productivity of capital then the extent of the burden can be measured by the interest burden on public debt. However, if the debt financing creates assets which future generations can inherit then the burden will be offset and could even be more than offset depending on the productivity of public capital. The degree of offset would of course depend on the extent of “deadweight” that exists in the system. Modigliani (1961) borrows the definition of deadweight from Meade (1958, 1959) which here implies the excess of debt claims over and above existing public assets.  

Hicks (1938), however, classified debt into three categories: (a) dead-weight debt, (b) passive debt, and (c) active debt. Deadweight debt is expenditure incurred that does not lead to any increase in productive power of the economy, e.g. war debt. Passive debt also does not directly increase the productivity of capital or labour but is expenditure on social utilities which are not revenue earning but increase well-being. Active debt on the other hand is expenditure on projects which either increase productivity, e.g. education, health, or directly creates physical assets of equivalent value. Hansen (1969: 145) argues that the inter-war debt of Britain, France and the federal debt of the USA was of the dead-weight variety. The state

6. According to Meade this “deadweight” is the burden of debt.
and local debt in the USA was passive debt and the Swedish debt was active debt as the public sector enterprises actually made net profits in Sweden which were larger than the interest burden.

Modigliani argued that the future economic prospects of a nation depended on three things: (a) natural resource base, (b) technological knowledge, and (c) stock of man made capital (or produced means of production). If debt impacted on any of the above three then it would impact on the future well being of the economy. He found that the Classical conclusions on debt emerged under full employment scenario but with one caveat. The classical burden of debt was the tax that future agents in the economy would have to pay in order to redeem the debt. The Modigliani burden of debt is the reduced income due to lower capital formation (1961:743). He also examined the case of less than full-employment (or depression) situation where private demand is not able to push the economy to full employment. If the government did not step in, there would be a loss of welfare for the current generation but there is no burden imposed on the future generation. If on the other hand, the government does step in, then it raises the well being of the current generation but the original loss of capital formation is not made up even after recovery and thereby imposes a burden on future generations. But Modigliani is quick to add that this should not be reason for the government not to intervene in times of depression. The multiplier effect of increased income in the present generation could be higher than the present discounted value of lost future income due to reduced capital formation in the current period. If the debt is used for capital formation then the burden would be that much less on the future generation and
could retire the debt in future thereby completely eliminating the burden (1961:754-55).

Modigliani's entire critique of the Keynesian position is based on the hypothesis that owners of bonds feel richer and therefore consume more leaving lesser resources for investment. This reduces the asset inheritance of future generations and thereby creates a burden. Lerner (1974) confronts Modigliani (1961) on two counts: (a) the well-being of generations is based on wealth inheritance of future generations and Modigliani takes into account only capital as wealth but not bonds; (b) Secondly, the increase in consumption is a fraction of the asset held in bonds (since propensity to consume is less than one) and therefore increase in wealth would outstrip the loss in investment due to increased consumption. The inherited bonds would therefore compensate future generations for possible losses due to reduced capital assets.

Bowen et al (1960) have, however, argued that it is possible to shift the real burden of debt in a closed economy on to a future generation. They do so by redefining the notion of a generation. The present generation is defined as those who lend money to the state and future generation are those who pay the taxes to service the debt. The problem with such an argument is that one need not think of these roles of different agents on the debt game as different generation as this could happen in the same generation itself. In fact, Lerner (1961) states that economists of all hues are aware that it is quite possible that some people reap benefits of the debt policy
while others pay taxes within the same generation. But what this does not prove is that the burden of an internal debt can be transferred.

This is, of course, not to deny that there can be other ways of imposing an intergenerational burden. If, for example, the current generation decides to "myopically" reduce the amount of natural resources available then it could be an inter-generational burden. If there was full employment and debt encouraged consumption as opposed to a tax which might have encouraged investment, then this could be a source of burden transfer (and is similar to Modigliani as discussed above). If debt was used (as has been traditionally) to finance expansion of the armaments sector which is considered to be non-developmental, non-productive sector, then this would woo away resources from the productive sectors and thereby impose a burden on the future generation. But then these impacts would hold true whether one used bond finance or tax finance (Lerner 1961:141).

Interest Burden and Taxation

One other theme that often crops up in the debt debate is with respect to the financing of debt servicing. Debt servicing is normally advised to be financed by way of taxation which would impose a burden since an increase in taxes would negatively impact on investment by reducing the incentive to invest by private agents. But this argument is fallacious on various counts the strongest being that the entire interest burden need not be financed by taxation when it becomes undesirable to do so. It could be done by borrowing or printing money (Lerner
The increased tax demand is matched by an increased level of economic activity which would not have occurred if there was no exogenous injection to the economy. The increased demand for tax need not lead to an increase in individual tax liability. The expansion of the tax base would increase tax returns and may not affect the tax rate.

The link between macroeconomics-development and growth evolves from the impact that investment has on income and employment which is the subject matter of our discussion in Chapters Two while Chapter Three examines the issue of debt sustainability. We have briefly discussed the impact that investment has on macro variables and development needs. What about growth? Narrowly defined, growth is the acceleration in national income, and achieved not by a higher capacity utilisation but creation of additional capacity. Additional capacity is created by capital accumulation --saving (investing) a portion of the current stream of production in products which yield directly or indirectly consumables in future. The higher the rate of accumulation (investment) the greater is likely to be the future stream of production. But where should society peg its saving rate? This issue was first addressed by Ramsey (1928) which led to the finding that the

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7 Some prefer to choose GNP/per head, while others, have suggested that conventional measures should try and impute the price of leisure into these calculations because leisure does form part of the commodity basket demanded (Tobin 1964: 6-7). But for our purposes we will treat them as equivalent with no loss in understanding of concepts involved.

8 "To accelerate growth is not the same thing as to increase the utilisation of existing resources, manpower and capital capacity...For short periods of time, stepping up the utilisation of capacity can increase the recorded rate of growth of output and consumption. But over the decades fluctuations in the utilisation of capacity will have a minor influence compared to the growth of capacity itself." (Tobin 1964:4)
The optimal rate of saving is achieved when the cost of giving up current consumption equates the benefits from investment for society when multiple generations are taken into account. This was the objective that a social planner would have in adjudicating between consumption and saving needs of different generations.

The Ramsey Rule assumed that there was some level of consumption at which the individual would reach "bliss". It did not explore a world in which it is not the marginal utility of consumption that goes to zero asymptotically but the marginal product of capital (in a world with stationary population). More generally in a world where labour force grows at some exogenous rate "n" it did not answer the question as to what would be the optimal saving rate corresponding to which there is an optimal rate of growth, given technology. Phelps (1961) argued that the Golden Rule rate of growth is reached when the steady state capital-labor ratio, k*, is such that the marginal product of capital is equal to the natural growth rate. Public policy could influence the manner in which the optimal traverse to the Golden Rule path. The Solow model (which we will discuss in greater detail later) assumes a given saving rate in the economy and attempts to find the equilibrium growth rate in that context. In the long run, the Solow model could be consumption inefficient since there is no way that model can determine its optimal rate of saving that maximises growth and is simultaneously consumption efficient since the growth rate is determined by a set of exogenous factors. However, Solow left no room for public policy intervention. If the long run rate of growth is not influenced by public policy then, is it meaningful for growth-persons to take account of public policy in their analysis? And how acceptable is the hypothesis that public policy
plays no role in influencing the growth rate? Commentators have argued that the evolution of growth theory was motivated by "immensely practical" needs, but it became "concerned with .... esoteric issues. Its link with public policy is often very remote" (Sen 1970: 9).

Even if one does not accede to the hypothesis that a higher investment simultaneously improves technology, in the medium run, at least, there is scope for tinkering with the rate of growth by adequately altering the rate of saving. Society expressing its collective choice through public policy can choose between alternative growth paths.

The moral of the above story is that growth theory has for far too long neglected public policy from its domain. Policies of the state have and continue to influence growth rates. And when the state as an agent of the collective will of society exercises these choices among growth paths then it becomes imperative to study growth in the light of public policy.

**Fiscal Policy and Public Debt**

Our interest is not in broad fiscal policy but specifically in public debt. We would like to enquire how public debt influences the rate of growth? First of course we must understand that deficit is a mode of financing government expenditure over and above earned revenues (non-borrowings) of the state when it does not resort to monetary financing. Public Debt represents the accumulated deficits (borrowings)
over a period of time and can be generated both within the country (internal debt) and outside (external debt). There are wide ranging impacts on the macro-economic variables due to a change in the level of public debt and now a substantial consensus exists to indicate that these impacts differ depending on whether the debt is internal or external (Tanzi & Blejer 1988). This mode of financing has been widely used and abused (in developing as well as developed countries) and therefore has generated a huge amount of literature which no single survey can do complete justice to. In this essay we will only touch upon some of the important aspects as our agenda here is much narrower. We will restrict ourselves to internal debt and any reference unless otherwise mentioned will be to this part of the public borrowings.

How is public debt created? It essentially emerges from fiscal deficits as this measures the net shortfall in government revenues to finance current expenditures. But fiscal deficits do not always increase the level of public debt. For example, if the fiscal deficit is funded by foreign aid in the form of grants or by issue of domestic currency (monetisation of deficit), debt as a proportion of GDP will not grow. In addition to this the following variables also play an important role: the rate of growth in the economy, real rate of interest, and the time horizon (with reference to business cycles – debt normally increases during economic downturns and is redeemed during booms which leaves the level of long term debt unchanged if debt accumulated during depression is paid of during boom) (Tanzi & Blejer 1988: 231).
The circumstances under which an increase in the level of public debt is observed are: Exogenous shocks like war, the need to undertake "big push" development expenditures in social infrastructure, populist consumption expenditures and even nationalisation of indebted private sector enterprises, availability of cheap international credit or the ability of the government to negotiate cheaper credit in the international market. This mode of finance it may be worth remembering is the Keynesian remedy for depression.

Why does government adopt debt as a mode of financing and not use additional tax as a source of revenue? It has been argued that each economy has an acceptable level of tax rate. Beyond this threshold level of taxation there is wide spread disenchantment and the political stability of the government is threatened. Therefore, any additional revenue requirements is easier to raise from non-tax sources. The two important (flexible) non-tax sources are printing money and borrowing from the "market". The problem of monetary financing of deficit also has its limits since it can lead to inflationary pressures. We are aware that inflation too has a threshold level beyond which it will result in similar social fallout as a visible high tax policy. This is the reason why fiscal deficit financed by borrowing from the "market" becomes an important mode of public intervention.

Believers in the market, of course, have grave doubts whether public policy can allocate (or help in allocating) resources efficiently. The rational expectations theory, in fact, goes so far as to suggest the applicability of Newton's third law of dynamics -- every government action has an equal and opposite reaction from
individual agents which makes public policy completely ineffectual. These positions were challenged from within the neo-classical framework by the 'new growth theory' which attempted to decipher the "black box" of technology. In fact, some have used the idea of spill-over effects that public expenditure may have on productivity of private investment leading it out of the dead end of decreasing returns (Arrow 1962, Arrow and Kurz 1970, Romer 1986, etc.). Therefore, an economy attempting to increase its growth rate might profitably devote a larger proportion of its output to public investment, which will have a positive effect on growth through spill over affects and technological advances. We critically evaluate this literature in Chapter Four.

Even though the endogenous growth models allow for inclusion of public policy they do not tackle the problem of distribution. This takes our journey to the Cambridge growth models, which explicitly account for heterogeneity in income as a determinant of growth, as discussed in Chapter Five. Kaldor (1956, 1957 and 1958a), who provided the alternate formulation to the Solow (1956) solution of the stability problem raised by Harrod-Domar, showed that the rate of growth is dependent on the saving propensity out of profits. Pasinetti (1962) carried the argument further by showing that if society has two classes of people – the capitalists and workers, it is the savings propensity of the capitalists that would determine the rate of growth of the economy, rather than the savings propensity of workers (which is not the same as savings propensity out of profits). The

9 We will have occasion to examine the rational expectations hypothesis later in the essay in the context of public debt.
introduction of government activity was left to Steedman (1972) but he achieved partial success as he proved the validity of the Cambridge model only under balance budget conditions. Later contributors like Denicolo & Matteuzzi (1990) and Dalziel (1991) extended the Cambridge model to include the case when debt existed under budgetary misbalance.

We push this line of theorising a little further in Chapter Six to show that under Domar sustainability conditions (when real growth rate is greater than real interest rate), with less than full employment the resultant growth rate is distribution dependent – similar to the Cambridge model. Kaldor (1958) had argued that capitalists seek a cushion against risk when it involves physical (fixed) capital as against circulating capital (monetary asset). If the real rate of profit and growth exceeds the real rate of interest by a certain positive amount then the economy can achieve steady state rate of growth with a stable positive level of debt. The fact that this result emerges under fairly non-restrictive assumptions is indicative of its robustness. This is of interest not only as a theoretical outcome has but also has very clear policy implications. It challenges the conservative orthodoxy (neo-classical and Ricardian), that an economy with perpetual deficit would enter a situation of fiscal crisis and therefore governments must maintain an inter-temporal balanced budget.

We finally conclude this essay in Chapter Seven with a brief look at the impact of public debt on financial markets and how this has helped develop the stock market
by providing a safe financial asset to hedge against risk of entrepreneurial investments.

In the following chapter we begin by looking at the early debate on deficit and public debt between adherents of the Keynesian school and the neo-classical school including the literature that evolved with the publication of Barro’s (1974) paper which had a profound effect on the debate. We also examine the post-Keynesian position on state intervention and how it differs in its conclusions from the other three.