Lecture 16: The Cambridge controversy, interventionalism

In this lecture, we first carry on from the Harrod-Domar model of growth, which ran into the knife-edge problem and couldn't represent a useful way of approaching the phenomenon of economic growth. The neoclassical growth model presented an alternative, and it fitted well with the so-called neoclassical synthesis proposed by Samuelson: The neoclassical model of markets would explain how prices are formed and how they can be manipulated if necessary, and the Keynesian macroeconomics could be used to secure that full employment, allowing the microeconomic part to function smoothly.

However, all was not well with the neoclassical approach to macroeconomic growth, with factor remuneration determined by marginal productivity, and the problems of defining capital gave rise to the so-called Cambridge controversy. We look briefly into this, postponing a treatment of Sraffa (one of the main figures in the controversy) to next lecture (and Lecture Note).

Following this, we comment on the period of Keynesian dominance following World War II with Paul Samuelson as one of the main theorists of this period. The prevailing macroeconomic theory of the time is known as *the Neoclassical Synthesis* (note that E&H attributes this notion to the work of Marshall, this is unfortunate since the term is commonly used on the afterwar compromise between Keynesian and neoclassical traditions). Even though the period witnessed an unprecedented increase in production and consumption, some of the shortcomings of the original Keynesian model became manifest, and eventually a reaction set in.

We conclude with some comments on the system of National Accounts, one of the major practical achievements of the postwar period. See Lecture Note 16 for details.

We read: Our book has no independent chapter on today's topics, most of it appears between the lines. We come closest in the pages 445–558 of E&H, abstracting from Fisher and Wicksell whom we have covered in earlier lectures.