

Chapter 3 The social surplus approach

Historical origins and present state

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Introduction

For classical political economists, the social surplus is the part of production that is not necessary for the reproduction of the existing social system. The surplus can be either re-invested to expand and transform productive activities of the existing economic system, or wasted on luxury consumption, leading to economic stagnation, and possibly decline if wasteful consumption exceeds the surplus. This depends on which social class appropriates the surplus. The distribution of the social surplus is thus an essential determinant of economic performance.

Development of the social surplus approach was first addressed by William Petty, and subsequently elaborated by Richard Cantillon. François Quesnay and the physiocrats, however, provide the first systematic outline of a social surplus approach that conceptualizes a circular economic process of reproduction in which a surplus is produced. Adam Smith generalized Quesnay's social surplus approach, arguing that it is not just agriculture that contributes to the production of the social surplus, as Quesnay and the physiocrats argue, but also other economic sectors.

David Ricardo elaborated Smith's perspective and defined the social surplus as the difference between total production and wages, measured in terms of embodied labor. Ricardo's theory was subsequently developed by Karl Marx, who measures wages and the means of production in terms of the labor which is socially necessary for the reproduction of socio-economic activity.

After Ricardo, the social surplus approach is progressively abandoned, and is definitely rejected after the marginalist revolution undertaken by Stanley Jevons, Carl Menger, Léon Walras, and Alfred Marshall.

Unlike other marginalist scholars, Marshall defines a social surplus in a radically different way, since it relies on subjective concepts. He offered a re-interpretation of classical political economy in line with his own neoclassical contribution, contrarily to Marx's original interpretation. Arthur Cecil Pigou continued Marshall's contribution, leading to the early Cambridge economic tradition, shaped by Henry Sidgwick, Marshall, and Pigou. John Maynard Keynes provided a critique of the Marshallian–Pigovian framework, leading to the separation of the Cambridge economic tradition into a Marshallian–Pigovian branch and a Keynesian branch. Keynes followed Marshall's interpretation of classical political economy, rather than Marx's original interpretation, and thus presented his work as a critique of the 'classical' school, which he did not distinguish from Marshall's and Pigou's neoclassical approach. Nevertheless, several scholars associated with the Cambridge Keynesian tradition, such as Piero Sraffa, Michał Kalecki, and Joan Robinson, adopted and developed Marx's original interpretation of classical political economy instead, leading to a revival of the classical-Marxian surplus approach.

I shall here trace the historical development of the social surplus approach, starting with the classical political economists, while distinguishing between Marshall's development of a neoclassical social surplus approach, and the Cambridge Keynesians who developed the social surplus approach with explicit reference to Marx's elaboration of the circular reproduction schemes of classical political economy. I shall argue that development of the social surplus approach provides a promising route for the development of heterodox economics.

The classical social surplus approach

Karl Marx ([1867] 1999) dates the beginning of classical political economy to William Petty, who famously argued that land and labor are the mother and father of wealth, respectively. But Petty also notes that labor can be measured in terms of the quantity of land, which is necessary for sustaining the laborer throughout the quantity of time during which labor is performed. Rent, the surplus, is then obtained by subtracting the produce of land necessary to sustain the laborer from the total produce of the land.

The interpretation of Petty's thought and subsequent developments are contentious. Here the attention is given only to those aspects pertaining to the social surplus. This is also the case regarding Richard Cantillon who, drawing on Petty, also focused on land and labor,

noting that land is the matter of, and labor is the form of, wealth (see Berg 2015). But, Cantillon also argues that we can measure labor in terms of the land necessary to sustain the laborer, while referring to Petty's *Political Anatomy of Ireland* and noting, however, that Petty focused on effects and failed to understand causes.

François Quesnay, who in turn was influenced by Cantillon, also focuses on land as the origin of the surplus. Quesnay (see Kuczynski & Meek 1972) argues that agriculture is the only sector that produces more than what it needs to reproduce itself—that is, it is the only sector which produces a surplus, which can be found as rent. The surplus, for Quesnay, can be used in productive activities, leading to economic development, or in luxury and unproductive activities, leading to economic decline. Quesnay provides the first systematic conception of the economy as a circular process of reproduction where a surplus emerges.

Like Quesnay, Adam Smith argues that the surplus can be used in productive activities, leading to economic development, or in luxury and unproductive activities, leading to economic stagnation (Smith [1776] 1999: 357). Smith considers Quesnay's economic theory as the nearest approximation to truth ever published in political economy. But Smith ([1776] 1999: 387) criticizes Quesnay for considering artificers, manufacturers, and merchants as unproductive classes. Smith argues that although in his view farmers and country laborers employed in agriculture are more productive than artificers, manufacturers, and merchants, the latter also engage in productive activities, all of which contribute to the reproduction of the social surplus.

For Smith, value arises out of human labor. Since labor is performed in the various sectors of the economy, all these sectors contribute to the production of the social surplus. As Smith ([1776] 1999) argues in the *Wealth of Nations*, in primitive societies commodities are produced mostly by labor, and so there is a more direct relation between the labor embodied in the production of a commodity and the value of the commodity in society. But with the development of the division of labor, each person cannot achieve all the necessities, conveniences, and amusements of life without the labor of others. Thus, after the division of labor has reached some level of development, the measure of wealth becomes, according to Smith, the quantity of labor that a person can command.

The quantity of labor one can command gives a more precise measure of the power a person has in society. As Smith ([1776] 1999: 37) states, citing Thomas Hobbes, wealth is power; in this case the power to purchase or command the labor of others. While Petty, Cantillon, and Quesnay focus on wealth as such, and measure value in objective terms such as land

and the corn it produces, Smith focuses more explicitly on the social power over others that wealth confers to an individual, by providing the power to purchase the labor of others. Smith ([1776] 1999: 40) notes that corn provides an approximate measure of value in the long-run but that labor commanded provides a more exact measure.

The distinction between labor commanded and labor embodied is at the root of the debate between Thomas Robert Malthus and David Ricardo. In his *Principles of Political Economy*, Malthus (1820) argues that supply and demand are the ultimate causes of value, which is measured in terms of the labor that can be commanded in market exchange. Ricardo, in contrast, argues that supply and demand cannot be the ultimate causes of value. Ricardo argues that if demand drives the price of a commodity above its ordinary value, determined by the cost of production (which includes wages, rents, and profits, as for Smith), and if labor is available for further production, the quantity of production will typically be increased as a response to the increase in demand, leading the price back to the cost of production.

The debate between Ricardo and Malthus is the starting point of the abandonment of the classical social surplus approach within the mainstream economic perspective, which is progressively reframed in terms of supply and demand forces, as Malthus argues it should be. Ricardo's argument that an increase in demand is offset by an increase in production presupposes the existence of labor available for further production, that is, surplus labor, or labor not fully employed. It is this presupposition that leads Ricardo, like Smith, to see demand and supply as mere accidental forces that drive the market price away from the ordinary or natural price, which is determined by the conditions of (re)production.

For Malthus, and for the subsequent dominant economic theory, supply and demand are the ultimate determinants of value, rather than mere accidental forces that drive market prices away from the cost of production. According to Marx ([1867] 1999), this leads to a shift from 'classical political economy' towards what he called 'vulgar political economy.' Whereas classical scholars from Petty to Ricardo focus on the underlying conditions of the production and distribution of the surplus, 'vulgar political economy' focuses on superficial phenomena such as supply and demand.

In order to explain supply and demand, many economists after Ricardo drew upon subjectivist notions. Nassau Senior argues that the first postulate of economics is that individuals desire to obtain wealth with as little sacrifice as possible. Senior's 'vulgar political economy' approach, according to Marx ([1867] 1999), is symptomatic of the

inclusion within economic theory of subjective notions such as ‘desire’ and ‘sacrifice,’ which assume a key role in the explanation of demand and supply.

Subjective elements drawing upon such notions as ‘sacrifice’ or ‘abstinence’ are progressively introduced into the explanation of supply forces, by Nassau William Senior, John Stuart Mill, and John Elliot Cairnes. Subjective ‘desires’ are also introduced into the explanation of demand forces by Jules Dupuit and Hermann Heinrich Gossen. The marginalist revolution leads to the consolidation of a subjectivist approach where supply and demand forces play a key role, and value starts to be defined in terms of subjective desires such as utility, rather than in terms of the cost of production.

[The neoclassical social surplus approach](#)

Most marginalists were critical of classical political economy. But Marshall, unlike other marginalists, considers his perspective as a continuation of classical political economy, which he interprets to be aligned with Malthus (while failing to note any significant difference between Malthus and Ricardo). Malthus interpreted Smith’s theory of value in terms of his own analysis, where supply and demand play a systematic role in the explanation not only of the market price, but also of the natural price (Martins 2013). Thorstein Veblen (1900) saw Marshall’s approach as the best work done within what he deemed the ‘neoclassical’ school, which continues the classical approach, defined according to Marshall’s conception, rather than Marx’s original conception.

Marshall ([1890] 1920) uses supply and demand curves to define the equilibrium price and quantity, which are determined simultaneously at the intersection between supply and demand curves. Using supply and demand curves, Marshall identifies a consumer’s surplus and a producer’s surplus, which together constitute the social surplus. The consumer’s surplus is defined as the geometrical area below the demand curve, and above the horizontal line set by the equilibrium price. The producer’s surplus is defined as the geometrical area above the supply curve, and below the horizontal line set by the equilibrium price.

Marshall claims to be in continuity with the classical approach of Smith and Ricardo, but his definition of the social surplus contrasts starkly to Ricardo’s, who defines the social surplus as the numerical difference between the value of total production and the value

of wages. Marshall, in contrast, relies upon subjective concepts such as utility and sacrifice, where utility explains demand curves, and sacrifice explains supply curves.

Marshall addresses the problem of distribution while taking marginal utility, rather than labor, as the source of value. An important argument underlying Pigou's (1920) analysis, which draws upon Sidgwick and Marshall, is that since those with less income obtain a higher marginal utility from income than those with more income, the reduction of inequality must increase total utility for society as a whole. Pigou, like Marshall, also stressed the positive impacts of redistribution on the laboring capabilities of the poorest classes, with positive effects on productivity. For Marshall, the negative effects of inequality spring not only from its curtailment of the satisfaction of wants, but also through its effects on dwarfing human activity. And although Marshall thought both aspects are important for economics, he also thought that if one was chosen as the most important for interpreting the history of mankind, that aspect would be human activities, rather than human wants.

The Marshallian–Pigovian framework continued to pay attention to problems of distribution, and led to the emergence of the field of welfare economics. But Lionel Robbins' (1938) critique of interpersonal comparisons of utility led to the relative neglect of this line of research, and the adoption of Pareto optimal conditions as a criterion of efficiency defined separately of issues pertaining to distribution. Robbins' ([1932] 1935) work also led to the redefinition of economics as the science that studies the allocation of scarce resources that have alternative uses. Thus, the distribution of the surplus is not a central concern within this mainstream scarcity approach.

The Marshallian–Pigovian explanation was criticized by John Maynard Keynes (1936) along different lines to Robbins. Keynes (1936) argues that the equilibrium between the demand for capital and the supply of capital cannot be explained using supply and demand curves in order to determine the price of capital (the interest rate), because those curves are constructed presupposing a given level of income. A change in either curve will entail a change in the level of income, and thus a change in the other curve. Thus, we cannot apply the Marshallian method of focusing on a given change while assuming that everything else remains constant. This also occurs with supply and demand curves for labor, since the changes in wages which those curves are meant to explain also change the level of income, and thus the curves which we are using as supposedly independent data in the first place, as Keynes (1936) notes.

Keynes' critique, many elements anticipated by Kalecki (1971) in articles originally written before Keynes' (1936) *General Theory*, led to the emergence of the Cambridge Keynesian tradition to challenge the Marshallian–Pigovian framework. Sraffa's critique of Marshallian supply and demand analysis also plays a significant role in the Cambridge Keynesian tradition. Sraffa (1926) argues that one cannot study changes in supply and demand curves while assuming everything else remains constant as Marshall does in his partial equilibrium analysis. Sraffa, like Keynes, argues that the economic system must be studied as a whole, rather than focusing on isolated parts as does Marshall (Martins 2013).

The Cambridge controversies in the theory of capital

There are significant differences between Keynes, Kalecki, and Sraffa. Kalecki developed his approach independently of the Marshallian background. Keynes started from Marshall's approach and retained much including his interpretation of classical political economy although Keynes was critical of Pigou's development. Sraffa started from a critique of Marshall's approach. But Sraffa was led to a much more radical departure than Keynes, and to a revival of the classical surplus approach consistent with Marx's interpretation of classical political economy. If we consider the early debate between Malthus and Ricardo, Keynes would probably side with Malthus, and Sraffa would certainly side with Ricardo. There are, however, common elements that shaped the Cambridge Keynesian tradition. These appear clearly in the Cambridge 'controversies' in the theory of capital. This debate was between Cambridge Keynesians in the United Kingdom (such as Piero Sraffa, Joan Robinson, Luigi Pasinetti, and Pierangelo Garegnani), economists of Cambridge, Massachusetts in the United States (such as Paul Samuelson and Robert Solow), and other economists of Cambridge, UK (such as Frank Hahn and Christopher Bliss) (see Harcourt 1972).

As Avi Cohen & Geoffrey Harcourt (2003) note, we can identify several rounds in the Cambridge controversies. In the first round the key issue at stake was the production function, and the possibility of establishing a monotonically decreasing relationship between the quantity of capital and its marginal productivity, which is seen as a determinant of the price of capital, that is, the rate of interest, while in an analogous way the marginal productivity of labor was seen as part of an explanation for the price of labor.

Joan Robinson (1953–4) triggered the first round when she brought the critique of the production function to the public realm. The essential point raised by Sraffa and Robinson is that it is not possible to obtain an aggregate measure of capital before knowing the interest rate that enables us to aggregate capital from different time periods or different techniques at a point in time.

In the second round of the controversy, between 1956 and 1966, Robert Solow (1956, 1957), at the same time as Trevor Swan (1956), simply adopted a production function with only one capital good used in its own production, so that inconsistencies with aggregate capital are avoided. Samuelson (1962) attempted to overcome the problems of the production function while making it a relevant concept in an economy with more than one good. As is well known, inconsistencies were again found in Samuelson's surrogate production function, leading Samuelson (1966) to concede defeat, while accepting that a monotonic relation between capital intensity and interest rate need not exist.

After conceding defeat, the marginalist authors moved to a third round which, according to Christopher Bliss (1975) and Frank Hahn (1981), would avoid the inconsistencies found in the idea of aggregate capital and the idea of decreasing marginal productivity of capital, since capital would now be measured in terms of disaggregated physical commodities (Cohen & Harcourt 2003; Garegnani 1976). However, several problems with general equilibrium theory had already shown again that one cannot assume monotonically decreasing (excess) demand functions (Cohen & Harcourt 2003; Martins 2013: 61–63) and inconsistencies arose again when attempting to describe the process of adjustment through time towards equilibrium through the mathematical analysis of supply and demand.

The Cambridge controversies showed several inconsistencies in attempts to determine distribution endogenously through marginal productivity theory. Sraffa's (1960) contribution, in contrast, conceptualizes distribution as an exogenous aspect from the point of view of economic theory, meaning there is no consistent way of determining distribution mathematically through marginal productivity theory. As Garegnani (1984) explains, this leads back to the surplus approach of the classical political economists and Marx, where the distribution of the surplus is an exogenous aspect, determined by institutional and political factors. But Sraffa believed that this fact had deep political implications, since classical political economy “with its surplus to be arbitrarily divided leads straight to socialism” (cited in Garegnani 2005: 489).

As Cohen & Harcourt (2003: 210) note, Veblen's critique of John Bates Clark addressed the same problem. Clark (1891) explains the distribution between capital and labor in terms of marginal productivities, while Veblen (1908) stresses that the distribution of the social surplus depends upon social and political power. According to Cohen & Harcourt (2003: 208):

Robinson argued—citing Veblen (1908) and raising the specter of Marx—that the meaning of capital lay in the property owned by the capitalist class, which confers on capitalists the legal right and economic authority to take a share of the surplus created by the production process.

After the consolidation of the Cambridge Keynesian tradition that took place as the Cambridge controversies unfolded, two key approaches to the social surplus in the twentieth century can be identified, which remain until today: firstly, the neoclassical social surplus approach that draws upon Marshall's interpretation and development of classical political economy; and, secondly, the classical-Marxian surplus approach, elaborated by the Cambridge Keynesians who draw upon Marx's interpretation and development of classical political economy, such as Kalecki, Sraffa, and Robinson.

[Inequality, welfare, and economic performance](#)

The neoclassical branch of the Cambridge tradition was further developed by James Meade (1976) and Anthony Atkinson (1975), within what may be seen as part of the Cambridge 'welfare' tradition started by Sidgwick, Marshall, and Pigou (Martins 2009). The impact of this tradition is still important, as can be seen not only in the continuing use of Marshall's notion of a social surplus in contemporary mainstream economics, but also in the debate surrounding contributions like Thomas Piketty (2014), who was much influenced by Atkinson.

This concern with inequality is shared by authors connected to the Cambridge welfare tradition who do not adopt the neoclassical framework, such as Maurice Dobb and Amartya Sen. Dobb and Sen propose instead a return to the classical-Marxian perspective. Sen's (1982) early contributions do draw upon the Marshallian–Pigovian framework to some extent, for example when advocating the possibility of partial interpersonal comparisons of utility, without assuming that exact and complete comparisons are always

and everywhere possible. Sen, like Sidgwick, Marshall, and Pigou, all drawing upon John Stuart Mill, discerns different types of utility, such as happiness, desire, and satisfaction. Following Dobb's notion of 'rich description,' Sen advocates moving from a subjective utility-based approach towards a multi-dimensional approach to human well-being, centered on the notion of human 'capabilities,' or what human beings can objectively be or do (Sen 1982, 1992, 2005).

This more objective approach to human well-being is certainly more in line with the classical-Marxian approach, even if it is also present in Marshall's emphasis on human activities, rather than human wants, as a key aspect of economic analysis. Marshall ([1890] 1920) argues that greater equality is important not because it gives more income to those with a higher subjective marginal utility, but because it gives more income to those who will use it in order to satisfy more urgent (and objective) needs, rather than to those who will use it to satisfy less important (and more subjective) wants. Of course, the subsequent developments of the neoclassical approach went in a more subjectivist direction.

Sen's multi-dimensional approach to inequality raises several possibilities concerning the channels through which inequality influences not only human well-being, but also economic performance. Inequality reduces the access of a majority of the population to various goods and services which are important to the expansion of their capabilities, such as health, education, and culture. As Sen (1992) explains, human capabilities have an intrinsic value because of their impact on human well-being, and also an instrumental value in the sense that they foster socio-economic change (see also Martins 2009, 2013). Inequality has not only a direct impact on human well-being, but also an indirect impact on human well-being through its detrimental effect on economic performance, which was noted early on by Marshall ([1890] 1920) and Pigou (1920).

There are important connections between Sen's capability approach and the revival of the classical-Marxian framework by Cambridge Keynesians like Robinson, Sraffa, and Kalecki. Distribution, and the share of wages in particular, is a central determinant of various economic variables, such as prices (Sraffa 1960) and output (Kalecki 1971: 98–99). Wages are also determined by institutional factors. These institutional factors are reflected in Sen's notion of basic capabilities (that enable a certain standard of living), which can be incorporated into the classical-Marxian framework in order to define the level of wages that ensures the achievement of basic capabilities, as argued by Putnam & Walsh (2012) and Martins (2013).

To achieve a better understanding of the consequences of inequality, studies of distribution cannot focus solely on the measurement of inequality. Rather, they must also look at the impact of the distribution of the surplus on the overall economic system not only through the supply side (connected to human capabilities and productivity), but also through the demand side. The demand-side channels are connected to the fact that those with a lower income have a higher marginal propensity to consume, as Keynes (1936) argues.

Keynes' approach to consumption is quite similar to Pigou's (1920) approach to human welfare. While Pigou argues that greater equality increases overall utility since more income is transferred to those who have a higher marginal utility (or to those who use income for satisfying more urgent and objective needs, as Marshall noted), Keynes argues that greater equality increases overall consumption since more income is transferred to those who have a higher marginal propensity to consume (see also Martins 2013: 105–107)

Pigou himself had applied this reasoning to consumption too. Pigou (1920) argues that the richer a person is, the smaller the proportion of their total income they will consume. Of course, Keynes (1936) provides a much more systematic development of his idea, which was also developed before by Kalecki (1971), who presupposes that workers consume all their income, while capitalists consume a share of their income. Keynes and Kalecki noted, unlike Pigou, that unless investment compensates the lack of consumption, the economy would systematically tend away from full employment.

One could think that luxury consumption compensates this lack of aggregate demand. But luxury consumption is often financed by the stock of wealth, rather than by the flow of income, as Keynes (1936) notes, and so it refers to postponed consumption of a previous income. The flow of income is the key to understanding the long-term sustainability of consumption patterns, and those who receive a smaller income must spend a greater percentage of what they earn simply for basic consumption needs. Those with higher incomes spend a smaller percentage even when luxury consumption is considered, while saving the remaining part of income. For this reason, consumption from income will be reduced with the increase of income inequality.

In summary, while the Cambridge Keynesians discuss the influence of inequality on economic performance through demand-side channels, the Cambridge welfare tradition emphasizes essentially how inequality influences economic performance through supply-side channels. The supply-side effects of inequality on economic performance, stressed by Marshall and Pigou (and discussed more recently by Sen), must be seen together with

the demand-side effects identified by Keynes and Kalecki, who studied the implications of inequality for effective demand and unemployment.

However, attempts to include distribution within the very analytical structure of economic theory occurred essentially within the Cambridge Keynesian tradition, and its revival of the classical-Marxian surplus approach, rather than within the Cambridge welfare tradition and the neoclassical surplus approach. Within contemporary neoclassical economics, Marshall's social surplus, constituted by the consumer's surplus and producer's surplus, is essentially a side product of the economic forces of supply and demand, represented by supply and demand curves. In the neoclassical framework distribution is thus determined by supply and demand forces, whereas Sen argues that distribution should be determined within an ethical and democratic framework.

[The Kalecki–Keynes–Sraffa synthesis](#)

Sraffa and Kalecki provide further important developments of the classical-Marxian social surplus approach, and of the impact of the distribution of the surplus on key economic variables such as prices and quantities. Keynes, who started from the Marshallian framework, reaches similar results to those of Kalecki. Thus, Robinson ([1974] 1980: 48) argues that Keynes' *General Theory* has, like Kalecki's theory of employment and Sraffa's approach, "much more in common with the classical school of the first half of the nineteenth century than with the neoclassical doctrines in which Keynes himself was brought up."

The circular process of reproduction appears more clearly in the Kaleckian and Sraffian branches of Keynesianism, than in the neoclassical-Keynesian synthesis initiated by John Hicks (1937), and consolidated by Samuelson (1947) (see Robinson 1975). As noted above, Keynes (1936) himself created much of the terminological confusion by designating the neoclassical approach as the 'classical' school, while criticizing it (Martins 2013: 93–96).

The neoclassical synthesis addresses the determination of prices and quantities simultaneously and through the same framework, in terms of supply and demand curves. For this reason, it offers the appearance of greater coherence than the Cambridge Keynesian tradition. However, many of the apparent divergences within the Cambridge Keynesians spring from the fact that they study prices and quantities separately. In reality,

their studies of prices and quantities draw upon the same classical-Marxian circular conception of production.

Sraffa (1960) focuses on a theory of value and distribution that provides the general conditions for the reproduction of the socio-economic process, while taking quantities as given. By defining the general conditions for the reproduction of the socio-economic process, Sraffa provides a framework that can be used for studying the more persistent elements of the economic system, such as the normal prices that enable the reproduction of the economic system (see Garegnani 1984, 2005).

While Sraffa provides a more abstract explanation of the prices that enable the reproduction of the economic system, Kalecki provides a more concrete explanation of why prices may remain relatively stable through time. Kalecki (1971: 43–49) notes the centrality of administrative prices in the economy, especially after the emergence of large corporations (see also, Lee 1998). The conventional price administered by the firm and its competitors not only persists over extended periods of time, but is also a central determinant of the price to be set in the following periods.

This conventional price is consistent with the natural or normal price as defined in classical political economy, which is simply the ordinary or average price based on the cost of production, that persists through time and multiple transactions, and appears in a more abstract formulation in Sraffa's (1960) system. This price enables persons and organizations to form expectations, which guide the reproduction of economic activities. Prices can be set within this objective approach through administrative procedures, which are part of a company's planning activities.

As Kalecki (1987: 19–21) notes, it is not only the socialist economies of the past, but also the capitalist economies (past and present), that are largely coordinated by planning. Certainly, there were many important differences between the capitalist and socialist economies throughout the twentieth century, but the more substantial differences must be found elsewhere than on the reliance on administrative planning *per se*. Even in sectors constituted by smaller firms or producers (including agriculture and extractive industries), the small firms and producers are part of a value chain where large companies set prices for their commodities. Prices in those sectors are often demand-determined rather than set as administrative prices, but the mechanism of adjustment is often changes in quantities so as to conform to demand (including the destruction of what was produced) rather than changes in prices (Kalecki 1971: 43–49).

Quantities, in turn, can be seen as determined by the Kaleckian/Keynesian principle of effective demand. Robinson argues for a synthesis between Sraffa's theory of value and distribution, and the Kaleckian/Keynesian principle of effective demand, putting greater emphasis on a Sraffa–Kalecki synthesis on some occasions (Robinson [1974] 1980) and on a Sraffa–Keynes synthesis on other occasions (Robinson 1985). When attempting such a synthesis, one must also take into account the methodological differences between Sraffa, Kalecki, and Keynes. Sraffa focuses on the overall conditions for socio-economic reproduction, abstracting from turbulent processes characterized by economic fluctuations, such as economic cycles. The latter have been a central concern of Kalecki, who notes that long-term phenomena are the result of cyclical fluctuations.

Sraffa is led to his methodological approach because he focuses on prices within a circular conception of the economy, while assuming that there are no changes in quantities. Keynes, in contrast, explains quantities in terms of effective demand, but without developing a circular conception that explains prices as an outcome of the process of reproduction. Can a synthesis be achieved, so that the Keynesian principle of effective demand is explained within a circular conception of reproduction such as the classical-Marxian one?

Such an approach was developed by Kalecki, who provided a circular conception of the economy, within which he explained prices in terms of cost of production, and quantities in terms of effective demand. It would seem that the synthesis between Sraffa and Keynes that Robinson sought was already present, even if unintentionally, in the writings of Kalecki. Perhaps this explains Robinson's overall preference for the Kaleckian approach, to be further combined with Keynesian and Sraffian elements.

In Kalecki's approach, distribution is taken as an exogenous aspect, to be further explained in terms of what Kalecki (1971: 80–81) calls 'distribution factors,' which determine the distribution between wages and profits. Drawing upon the Kaleckian approach, we can see how distribution influences economic performance. Kalecki noted that increases in wages, leading to a more equal distribution of income, do not reduce profits. As Kalecki (1971) explains, the increase in wages of workers (who on average earn lower incomes than capitalists who receive profits) merely diverts profits from investment-goods industries and luxury-goods industries to wage-goods industries. In wage-goods industries, an increase in wages is spent in the goods produced, so it does not change the amount of profit in that industry. The profits reduced in industries connected to investment goods and luxury goods are spent by the wage earners of those industries in

the wage-goods industries, and so profits remain the same for the economy as a whole, while output increases due to the increase in wages.

This means that greater equality in distribution of the surplus will not lead to economic decline, but rather to greater economic prosperity. This conclusion, focusing on demand-side aspects, is similar to the conclusions reached within the Cambridge ‘welfare’ traditions of both the Marshallian–Pigovian neoclassical framework and Sen’s development of the classical-Marxian framework. All of these authors focus on supply-side aspects such as the expansion of human capabilities, while also noting the positive implications of greater equality for human well-being. Greater equality, leading to the expansion of human capabilities, is not only an ethical goal, but also a means for improving economic performance, as Sen (1999) argues.

Further work is needed to provide a broader and clearer understanding of the implications of inequality in the distribution of the social surplus. It seems that a more objective explanation of supply-side factors and demand-side factors, such as that undertaken in the classical-Marxian social surplus approach, provides a solid grounding for that work, especially given the inconsistencies identified in the neoclassical framework during the Cambridge controversies.

An important example of recent developments of the social surplus approach within heterodox economics can be found in the contributions of Frederic S. Lee. Lee developed a Post Keynesian-Sraffian vision of the economy influenced by Alfred Eichner, combining the Sraffian emphasis on an input-output circular reproduction scheme with a Post Keynesian theory of mark-up pricing, and thus reaching a synthesis similar to the one described above (Lee & Jo 2011; Lee 2018). Lee (2018) argues it is important to combine the structural analysis found in Sraffian social surplus theory with the role of agency, while explaining concrete structures and causal mechanisms connected to the business enterprise, and the social provisioning process in general, through which agency takes place.

Another important development of the social surplus approach has been by Sergio Cesaratto (2023) as well as his collaboration work with Stefano di Bucchianico (Cesaratto & Bucchianico 2021a, 2021b). In their work, which is consistent with the contributions of Sraffian scholars like Garegnani, the social surplus approach is used to study the fundamental (or core) structure of the economy, while leaving enough degrees of freedom for accommodating a wide variety of institutional contexts. Cesaratto suggests drawing on anthropological and archeological research (in particular, Karl Polanyi and Gordon

Childe's work) that may illuminate the institutional settings of various societies, thus providing a promising extension of the social surplus approach to the study of societies in historical contexts. The social surplus may be appropriated and used in various ways depending on the institutional setting, thus further analysis of the latter becomes necessary to further advance development of the social surplus approach.

Concluding remarks

Inequality is a central concern for the classical political economists and Marx, for whom the central question of economic analysis is the study of the production and distribution of the economic surplus across social classes. Inequality is also the central concern of the scholars who pioneered the emergence of the modern approach to economics. This approach includes modern microeconomic analysis, which was greatly shaped by the contributions of Marshall and Walras, and modern macroeconomic analysis, which was to a great extent shaped by Keynes.

In fact, if the distinction between microeconomics and macroeconomics is used, we may say that the impact of inequality on economic performance through the demand-side was a central aspect of Keynes' (1936) macroeconomics, while the impact of inequality on human well-being and on economic performance through the supply-side was a central aspect of Marshall's ([1890] 1920) microeconomics. But as Sen (1999) notes, both aspects are connected, since unemployment, the result of macroeconomic forces connected to aggregate demand, has a detrimental effect on human capabilities, which are connected with aggregate supply, and human well-being in general.

The role of power in distribution has been progressively forgotten within mainstream economic theory and policy. A concern with the role of power in distribution continues within the heterodox economic traditions, where the central issue at stake is not the maximization of utility or profits, but rather the process of social provisioning, that is, the distribution of the social surplus, as pointed out by Sraffa, and also within Original Institutionalism. Differing degrees of power are associated with prevailing institutional arrangements and therefore different social classes and organizations such as the business

enterprise exercise their power to advance their interests in the social provisioning process.

The emphasis of this chapter was on the traditions that attempt to establish an explicit connection to the classical surplus approach. But a surplus approach underpins many other heterodox contributions (Lee & Jo 2011). Veblen is a case in point. He provided the most influential non-Marxian perspective that draws upon (or at least presupposes) a social surplus approach in which the surplus is appropriated by a leisure class. Indeed, Veblen's critique of Clark anticipates many of the issues raised by Robinson and Sraffa in the Cambridge controversies in the theory of capital. An important conclusion of the latter controversies is that distribution is best seen as determined by institutional factors, rather than marginal productivities. Thus, contributions drawing on other heterodox traditions that address institutional aspects, even without explicitly referring to the classical-Marxian surplus approach, certainly have much to contribute to this topic.

Studies of distribution will not be of consequence unless the topic is addressed through a solid framework, which enables one to go beyond the measurement of inequality, towards a clearer understanding of the impact of distribution on economic performance and human well-being. The classical-Marxian surplus approach provides such an objective approach, which has been rediscovered and developed after the critique of the Marshallian–Pigovian approach by Keynes and Sraffa, as part of a conception of social provisioning aimed at the achievement of human development.

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