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# Essays on Classical and Marxian Political Economy

Collected Essays IV

Samuel Hollander

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**Samuel Hollander**



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# Essays on Classical and Marxian Political Economy

Samuel Hollander's work has been provoking debate for over four decades. This book brings together key contributions of recent years, in addition to some brand new pieces. The essays are introduced by a Preface in which Hollander reflects on his past work and reactions to it.

Highlights include two issues of particular current relevance. Conspicuous is an extensive chapter regarding Adam Smith's often neglected arguments for government intervention in the economy to correct market-failures, and his highly critical view of the business class as an anti-social force. Important economists considered in relation to Adam Smith's position on the role of the state, particularly with respect to the adoption of new technology and economic development more generally, include Jeremy Bentham and the Scottish-Canadian John Rae. Similarly of high present-day interest is a re-examination of Karl Marx's theory of exploitation, or the notion of profits as "embezzlement", demonstrating Marx's effective abandonment of this perspective in the case of the small active businessman as distinct from the major joint-stock corporation.

Other papers demonstrate the close intellectual relationship between David Ricardo and Thomas Robert Malthus; the extensive common ground between the British school and the French under the leadership of Jean-Baptiste Say; the failure of a so-called anti-Ricardian opposition in Britain represented by Samuel Bailey; and the absence of sharp discontinuity between "classical" and "neo-classical" economics.

Finally, several biographical essays are included, as well as an extension of the autobiographical account appearing in *Collected Essays II* ("An Ill Wind ...").

**Samuel Hollander** is University Professor Emeritus at the University of Toronto, Canada, where he served on the faculty from 1963–1998, and is currently affiliated with the Department of Economics at Ben-Gurion University, Israel. An Officer of the Order of Canada and a Fellow of the Royal Society of Canada, Professor Hollander holds an honorary Doctorate of Laws from McMaster University, Ontario, Canada, and was a Research Director at the Centre National de la Recherche Scientifique (CNRS) of France, 1999–2000.

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Collected Essays IV  
*Samuel Hollander*

Dedicated to William J. Baumol.

Also for Adi, my first great-grandchild, and her parents Amber and Yonatan.

And to the memory of my father's sister, Sarah-Hinda Holländer, born 25 November 1902, Nowy Sacz (Sanz), Galicia, Poland, and the patients and staff of the Apeldoorn (Holland) Jewish Hospital, deported 21 January 1943 to Auschwitz, murdered 25 January 1943.

*Zikhronam li-Verakha*

# Preface

This book contains a selection of my papers written over the past decade or so. Reprinted materials appear without modification, except for a few minor adjustments to remove stylistic and other infelicities that may hinder comprehension. I have also taken care in Chapter 5 to signal my altered position on a specific question of authorship. The chapters in Parts II and III are linked by a unifying theme relating to the classical canon; and this is true also of the two biographical appreciations in Part V. Completely new material includes the first chapter of Part I regarding Adam Smith's arguments for government intervention to correct market-failure; replies to critics in Chapters 8 and 18 relating to Ricardo and Marx interpretation respectively; and the memoir with which the collection closes.

Adam Smith, I argue in Chapter 1, should be considered as a pioneer market-failure analyst of the first order, ahead of John Stuart Mill not only temporally but on matters of substance regarding the rate of capital accumulation, resource allocation and even stability. Corrections of market-failure were to be governed ideally by the principle of Natural Liberty, and avoid interventions directed at particular industries or sectors. By committing himself so strongly to both positions, Smith encouraged markedly divergent interpretations; whereas I argue that to represent him as "socialist", or "economic engineer", or "secret radical", as some in fact do, is quite as misleading as to treat his allowances for state intervention merely as "exceptions" to a general rule of *laissez-faire*. "Enlightened interventionism" would, I maintain, be an appropriate designation of his proposals, quite in the spirit of Keynes, rendering them of the highest relevance to the present day. Smith's support for monopoly price control and even quality control in some instances also emerges from our account.

As already intimated, my concern is not merely to get Smith right, but to try to understand why he has all too frequently been grossly misinterpreted. Apart from the complexity of his position, his style – essentially a rhetorical tendency to exaggerate – has tended to mislead readers. Ideological bias has also distorted understanding in some conspicuous instances; but even Jacob Viner, that most objective of intellectual historians, must bear some share of the responsibility since his justly famous "Adam Smith and *Laissez Faire*" may be shown to leave an ambiguous message regarding the role attributed by Smith to the state.

The Scottish-Canadian John Rae, and Jeremy Bentham, are considered in Chapters 2 and 3 respectively in relation to Adam Smith's position on the role of the state. In the first we concentrate on the adoption of new technology and economic development more generally; and in the second on Smith's support for the usury laws.

Part II is devoted to the character of the classical canon, spelled out originally in *The Economics of David Ricardo* (1979), and in my *Collected Essays I* (1995a). A key paper on "The Canonical Classical Growth Model: Content, Adherence, and Priority" (1998a) is reproduced in Chapter 4, and supplemented in Chapters 5 and 6 by studies of two of Ricardo's outstanding contemporaries, Samuel Bailey and Jean-Baptiste Say, both self-declared "anti-Ricardians" and almost universally taken at their word. This view I reject in each case and also question the common notion of the existence of two distinct "Schools": British and French. In this manner I reinforce my conviction that it is desirable to avoid premature appeal to doctrinal transitions and distinctions when all that may be involved are superficial, including linguistic and terminological, differences.

As for Bailey, I contend that E.R.A. Seligman, in his famous account of "neglected" early nineteenth century British and Irish economists, and later participants in the debate, neglect the advice offered by Jacob Viner that any investigation of the extent and nature of the early dissension requires that attention be accorded to the replies of the Ricardians to their critics, for "some of the criticisms against the Ricardian analysis were either based on misinterpretations of it or would have been accepted by the Ricardians". I follow Viner's recommendations with respect to Bailey. It emerges that in many cases Bailey's criticisms constitute misunderstandings of Ricardo's position, while others would have been considered wholly acceptable by Ricardo. Thus Bailey's failure to achieve a paradigmatic breakthrough, recognized in the commentaries, is attributable neither to roadblocks erected by the intellectual establishment nor to a failure to exert sufficient pressure, as is commonly imagined, but to the fact that the doctrines he propounded were essentially Ricardo's.

Chapter 6 on Say's economics reproduces the First Michio Morishima Lecture I presented at Siena to the Italian Association for the History of Political Economy (STOREP) in June 2005. It provides a convenient summary of a main theme in my *Say and the Classical Canon in Economics* (2005), disposing of the standard view of a sharp divide between early nineteenth century British and French Schools. The book itself has received a stony response though conspicuously without proper textually based refutation. I firmly stand by my position of Say as "canonical" growth theorist, and am eager to encourage debate.

In this chapter I bring to light several features found in Say's corpus relating to the canonical, land-based, growth model: (1) differential rent and the zero-rent extensive margin; (2) the subsistence wage path based on the population mechanism and the logically more satisfactory falling real wage path generating deceleration of population growth and ultimate stationariness; and (3) the functional relation between the interest rate and the rate of capital accumulation. In one respect Say outperforms the mainstream Ricardians by envisaging

knowledge creation itself as subject to increasing limitation and by framing the principle of diminishing returns even with allowance made for an open economy. I then address the question why Say's canonical *bonâ fides* have been neglected, and propose some considerations.

I introduced the original Siena lecture with the following words that spell out briefly my perspective on doctrinal history, and describe my connection with and respect for the late Professor Morishima:

I first met Michio Morishima at the London School of Economics in 1974 and again here in Siena fourteen years ago at the 750th Anniversary of the founding of this University on which occasion he received an honorary degree. He had then just published his *Ricardo's Economics*, the third of a trio of brilliant studies, the first and second devoted to Walras and Marx. In his book on Ricardo, Michio revealed in the *Principles* a general-equilibrium system with a basis in marginalist concepts; conversely, he showed how much of Ricardian growth theory was to be found in Walras's analysis of "the laws of the variation of prices in a progressive economy". Of high importance for me was the fact that by Michio's mathematical method and my more prosaic exegetical method, we had arrived, broadly speaking, at the same interpretation of Ricardo and his place in the history of economics. I must admit that having so powerful an ally in the face of considerable opposition proved to me in 1991 – and this remains true today – a great comfort. It is then with a sense of deep appreciation towards Michio that I accepted with alacrity, indeed with joy, the invitation to give the first lecture in a series in his memory. That Madame Yoko Morishima and their three children should be here tonight adds to my pleasure in having been given the opportunity to honour the memory of a great economist. I shall only add that in spelling out the common ground between Ricardo and Say, as I do, I am writing in the spirit of Michio who throughout his career sought reconciliation between what might seem on the surface vastly different schools and tended to emphasize continuity in intellectual development rather than make premature appeal to 'revolutionary' transitions.

(Hollander 2005: 9–10)

Chapter 7 reproduces a response to criticisms by Dr Terry Peach of my understanding of the canonical or Ricardian growth model (Hollander 2007). Chapter 8 purports to be my last word on the so-called New View, though I make no promises. It is written in the light of Peach's stance which, as I understand it, is to concede the New View but minimize the damage by relegating it to "immature" economies alone, as it were placing it in an isolation ward to avoid contamination. This novel contention I find unconvincing. The texts, I shall argue, support the applicability of the new-view reading of Ricardo to all instances of growth subject to land scarcity, including "mature" economies such as Britain's.



The Peach criticisms of my perspective on Ricardo relate to the theory of growth. Others have objected to the distribution-value component of New View reasoning. Regarding this feature there has come to my attention an article by Professor Heinz Kurz, “On David Ricardo’s Theory of Profits”, repeating the refrain regarding Ricardo that he “was convinced that the rate of profits could be ascertained in purely physical terms”, as a corn ratio, and constituting a paean of praise for Piero Sraffa and his famous interpretation along these lines (Kurz 2011: 3). My first efforts to disabuse the profession of what I believe to be an error go back to the 1970s, and I am sorry to find that Professor Kurz should deal with my textual evidence by simply asserting that it belongs in the waste basket: “[Hollander’s] interpretation of Ricardo as an early demand and supply theorist or marginalist author involves *a travesty of facts, as many critics of Hollander have convincingly argued*” (2011: 18n; emphasis added).

Now Professor Kurz is an old campaigner and, of course, knows very well that my case has actually garnered strong support. Morishima, needless to say, was one such ally. So was the late Martin Bronfenbrenner, who wrote this of my *Classical Economics* with Ricardo interpretation in mind: “Is the Hollander rehabilitation of classical economics a success? I think that it is, both in presenting what classical economics was and in stressing how much of it remains in both modern Micro- and modern Macro-economics” (Bronfenbrenner 1989: 41). Bronfenbrenner refers to my “superior treatment of the ‘Cambridge critique’” as a strong point of my reading, and goes so far as to seek “to explain why Sraffa may have gone astray in interpreting [the classicists]” (1989: 40). Professor Jeffrey Young’s (2001: 144–5) review article of my work in general concludes, regarding my interpretation of Ricardo, that it is

logically sound, rooted in the original texts, and defensible against the charge of anachronism, reading new ideas into older texts. Indeed it is worth noting that some chinks in the traditional façade have begun to appear. Text-books now give some credit to the “new view”. What I hope to have shown is that Hollander’s interpretation can stand up to the harsh criticism which has been directed against it.

Lord Robbins in fact regarded my *Ricardo* as a work that “completely transcends all its predecessors, both as regards scholarship and as regards analytical insight”, and spelled out in particular my exhibition of “the interconnection of the various aspects of Ricardo’s approach in regard both to his general theories of value and distribution and their application to more detailed policy and the potential vicissitudes of the economy”. This appears in a Reader’s Report which my publisher made use of on the dustjacket of the book, but Lord Robbins’s supportive opinion was repeated several times to his students in his famous LSE Lectures (e.g. Robbins 1998: 9–10, 198–9). A very recent review of my *Economics of Karl Marx* offers the following evaluation: “Hollander has not been partial to the notion of a rupture between classical and neoclassical economics. He has convinced me at least that the arguments against a rupture are powerful