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Editors

Perspectives on Keynesian Economics

Contents

Introduction 1
Arie Arnon, Jimmy Weinblatt, and Warren Young

Part I History, Methodology, and their Current Relevance

Making the Most of Anomaly in the History of Economic Thought: Smith, Marx-Engels, and Keynes 15
Samuel Hollander
Hollander on Anomalies in the History of Economic Thought: Some Comments 31

Reason and Reasonableness in Keynes: Lessons from *The Economic Consequences of the Peace* 90 Years Later 35
Maria Cristina Marcuzzo
Comments on Professor Marcuzzo's Paper 53

The Marshallian Roots of Keynes's General Theory 57
Michel De Vroey
Marshall, Models, and Macroeconomics: Comments on Michel De Vroey's The Marshallian Roots of Keynes's General Theory 76

Was Patinkin a Keynesian Economist? 81
Mauro Boianovsky
A Commentary on Mauro Boianovsky's "Was Patinkin a Keynesian Economist?" 99

Keynes, Robbins and the Nature of Economics 103
Amos Witztum
Keynes According to Robbins: A Comment on Witztum 131

Johnson's Conversion from Keynesianism at Chicago 135
Russell S. Boyer
Appendix 163

Part II Models, Pedagogy, Policy and Crisis

The Keynesian Revolution and IS-LM: From Enigma to Conundrum 171
Warren Young
Comment on Warren Young's Paper 181

The Keynesian Method, Complexity, and the Training of Economists ... 183
David Colander
Comments on Colander's "The Keynesian Method, Complexity, and the Training of Economists" 202

Keynes, Wicksell and Active Monetary Policy 207
Arie Arnon
Comments on Arnon "Keynes, Wicksell and Active Monetary Policy'' 230

"The Consequences to the Banks of the Collapse of Money Values", 1931 and 2009 233
Robert W. Dimand
The Consequences to the Banks of the Collapse of Money Values: 1931 and 2009: Some Comments 246

The Great Depression, the Global Financial Crisis and Old Versus New Keynesian Thinking: What Have We Learned and What Remains To Be Learned? 251
Alex Cukierman
The Great Depression, the Current Crisis and Old Versus New Keynesian Thinking. What Have We Learned and What Remains To Be Learned?: Discussion 270

Lucas, Keynes, Animal Spirits, Co-ordination and the Recent Crisis 275
David Laidler
Comments on David Laidler's Paper 301
A Response to Warren Young 303

Introduction

The years 2009–2011 collectively mark nine decades since Keynes's *Economic Consequences of the Peace* (1919), "four score and seven years" since the appearance of his *Tract* (1923), 80 years since the *Treatise* (1930) and the "platinum anniversary" of the publication of his *General Theory* (1936), tomes which attracted attention and debate then, with the *General Theory* still generating much interest and controversy amongst economists and the public today; that is in a period of emergence from what has been, in retrospect, perhaps the most serious economic shock – financial, nominal and real – since the depression years and their immediate aftermath, 1929–1939.

The present volume is the outcome of a symposium organized by the Thomas Guggenheim Program in the History of Economic Thought held at Ben Gurion University, 14–15 July 2009. This meeting brought together leading economists and historians of economics, and focused upon the relevance of Keynesian economics from the perspective of the current crisis and in historical perspective. The volume is divided into two parts. The first part applies historical and methodological perspectives to the development of Keynesian economics, and assesses lessons that may be drawn from them for the present crisis. The second part of the volume focuses upon the development of models and policy issues characterizing and emanating from Keynesian economics, their relevance for economic analysis today, and the application of the Keynesian framework to the analysis of the current crisis and possible future crises.

Samuel Hollander's paper opens the first part of the volume. He starts by addressing anomalous positions taken by Smith, Marx and Engels, and Keynes: Smith's advocacy of government intervention in the credit market; the appeal of Marx and Engels to the competitive pricing mechanism in certain cases; and

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The references to publications in this introduction appear in the respective chapters of the volume.

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what he called the "conundrum" of "Keynes distorted representation of classical macroeconomics despite his keen awareness of the true classical position", that is to say, "Keynes's misrepresentation", in Hollander's view, of Ricardian macroeconomic policy. In the conclusion to his paper, when focusing on the anomaly in Keynes's approach to Ricardo, Hollander asks: "Is that perhaps an alternative suggestion?", to explain what he takes as Keynes "deliberate distortion" regarding the Ricardian position, and his support of the Malthusian position.

In his comments on Hollander's paper, David Laidler shows that Ricardo also overlooked certain issues. For example, as Laidler points out, Ricardo elided certain approaches from his *Principles* (1817), thereby creating a dissonance between that volume and, as Laidler put it, other "down to earth policy commentaries" of Ricardo. Indeed, the "cognitive dissonance" of Keynes on the one hand, and Ricardo on the other, may have played a role both in the conundrum raised by Hollander, and the dissonance pointed out by Laidler.

In her paper, Maria Christina Marcuzzo attempts to draw *lessons* for the recent economic crisis from the philosophical *weltanschuung* underlying Keynes's approach in the *Economic Consequences of the Peace* (1919) – that is to say, his emphasis on *reasonableness* rather than *rationality*. She provides a number of historical examples of what can be called the *rational–reasonable divide*, starting with the Franco-British split at Versailles, through the Anglo-American rift over re-payment of war debt, and up to the decision by the US government *not* to bail-out Lehman Brothers. Marcuzzo further maintains that any "return to Keynes" should not only be based upon demand management policies, so as to prevent world-wide deflation and recession, or the implementation of reforms in the international financial system, but, as she suggests, also on an across-the-board utilization of Keynes's idea of *reasonableness* as against what she sees as the *misplaced* notions of individual and market rationality.

In his comment on the paper, Moshe Justman agrees with the *rational–reasonable* (i.e. Franco-British) divide at Versailles, but questions whether this characterized war-debt repayment. Indeed, he asserts that despite Keynes asking the Americans to be "reasonable" regarding this, the US position, while possibly "unfeeling", was not actually "unreasonable". As for Lehman Brothers, he concludes that while in retrospect, it may have been the *wrong* decision, in light of the uncertainty at the time, this decision could *not* be considered "unreasonable".

Michel De Vroey's paper asserts that those claiming the *General Theory* to flow from Marshallian headwaters actually diminish the theoretical contribution Keynes *thought* he was making. According to him, Marshall had *no* theory of unemployment per-se. Moreover, he shows that this *theoretical* gap was not filled by others, such as by Hicks (1932) and Pigou (1933). In the former case, the result was a "misunderstanding" of Marshall's labor market adjustment mechanism, and a convoluted treatment in the latter. Thus, if one wants to "reinforce the validity of Keynes's argument" as put forth in 1936, "trying to anchor Keynes's theory" in "Marshallian theory" is counterproductive. In his opinion, Keynes did not remove the rigid wage assumption, as he himself, among others, had thought. He praises Keynes, however, for starting "the quest" for a solution to the problem, and

concludes that Keynes was not "wrong"; he was simply unable to construct a rigorous model of his "intuitions".

In his comment on De Vroey's paper, David Colander first distinguishes between Marshallian "models" and "method". Following from this, in his view, while Keynes utilized the Marshallian "method", he did not utilize Marshallian "models" in his "attempt to develop a theory of unemployment". Rather, Keynes's approach was based upon what Colander calls "a complexity vision". He asserts that in taking this path, Keynes moved from the *ceterus paribus* assumption underlying Marshall's partial equilibrium micro-modeling method to a "macro-modeling method" based upon "interdependencies" that could bring on "serious coordination failures". In his view, Keynes "used the Marshallian method, which sees models as aids to intuition". He concludes by saying that while Keynes "did not develop an acceptable scientific theory" of how his "complex system would operate", he still provided "a vision" for those, in Colander's words, "willing to see" it.

In his paper, Mauro Boianovsky shows that Patinkin's *dynamic* interpretation of the disequilibrium nature of involuntary unemployment should be considered as his contribution to Keynesian analysis and its extension. In order to understand Patinkin's views, *all* his work, *both* published and unpublished, must be considered, not only the editions of *Money, Interest and Prices* (1956, 1965, 1989). He points, for example, to a 1957 draft typescript – that became the basis for his later rejoinder to the negative review by Hicks in *Economic Journal*. In this, Patinkin distinguished between *monetary* and *employment* theory as set out Keynes, and asserted that the latter was "the fundamental contribution of Keynesian economics". With regard to Keyne's notion of "effective demand" and employment, Boianovsky maintains that Patinkin made a "plea for a dynamic interpretation" of the theory of employment, that is to say, a "disequilibrium perspective". Taking the story up to the 1989 edition of *Money, Interest and Prices*, he says that rather than counterpoint Keynesian and Monetarist positions, Patinkin attacked key tenets of the "New Classical Macroeconomics", such as rational expectations. He concludes by maintaining that Patinkin did not belong to the "Neo-Classical Synthesis"; rather, as Patinkin himself put it, he was "more Keynesian than Keynes", albeit, a *disequilibrium* "Keynesian economist".

Michel DeVroey asserts that, in his view Boianovsky did not actually answer the question implied by the title of his paper. Following from this, he provides "an outline of the paper" that could have, according to him, been written. He starts by "questioning the Keynesian character" of Patinkin's writings, identifying two reasons for this: advocacy of the real-balance effect, and reading Keynes "through Walrasian rather than Marshallian lenses". According to him, Patinkin exhibited a form of "cognitive dissonance" regarding the slow adjustment process towards equilibrium in conjunction with the Walrasian approach he advocated; the latter taking place, according to DeVroey, in "logical time". He presents his *own* definition of what constitutes a "Keynesian" approach, delineating "two meanings": the first, based on "market failures" dealt with via demand policies; the second, emanating from a "precise conceptual apparatus", in his view, the IS-LM model.

He maintains that Patinkin *was* "Keynesian" with regard to the first, but as he "followed the Walarsian line", *was not*, on the second meaning. He claims that Patinkin was "not alone" in taking this "mixed position", and was actually a "mirror image" to the stance regarding "Keynes's conceptual apparatus", with which, in his view, Friedman "had no qualms"; and this, as against Friedman's "anti-Keynesian" policy stance. He concludes by saying that "modern neo-Keynesian authors" have also been affected by this "cognitive dissonance", albeit not attempting to "attach" their "reasoning to Keynes's".

Amos Witztum addresses a conundrum in his paper, relating to the Keynes–Robbins interaction over "the years of high theory". Witztum is struck by the dissonance of Keynes *not* attempting to *place* his 1936 volume, which was destined – as he put it in a letter to Shaw – to "revolutionise" economic theory, into the framework set out by Robbins, in 1932, and again in 1935, that, in essence, has demarcated the boundaries of "the subject matter of economics" up to the present day. He goes on to show the complex relationship between Keynes's ideas and those of his classical predecessors; this in the context of Keynes's somewhat enigmatic statement, made at the end of his 1936 volume, that once full employment is attained, the classical approach "comes to its own". In his view, given that the 1936 system set out by Keynes was based upon the delineation of "good" and "bad" equilibrium, Witztum assets that this ethical "non-neutrality", among other characteristics, did not seem to enable Keynes's approach to fit into the Robbins taxonomy of what constituted economic "theory" at the time. Despite this, however, Witztum concludes that the "implicit denial" of its place in the science of economics, that characterized Robbins's treatment of Keynes work, *from 1923 till the end of the 1930s*, "was unjustified".

In his comment, Boianovsky takes issue with Witztum's treatment of Robbins's views of Keynes. As in his own paper in this volume – on Patinkin as a Keynesian economist – he advocates utilizing the *overall* body of work of an author, in this case, Robbins, in order to assess the Robbins–Keynes nexus. He maintains that after 1934, and from 1947 onwards, especially in his 1971 *Autobiography*, Robbins was positive on Keynesian employment and demand management policies. Boianovsky *does* recognize the fundamental difference between Keynes's 1936 definition of economics "not as pure science, but as an applied, moral science", as against that of Robbins (1932), which was that economics was a "science". According to Boianovsky, however, Witztum's conclusion that Robbins "implitly denied Keynes's place in the science of economics" – *based solely on Robbins's 1932 approach* – "remains unproven".

In his paper, Russell Boyer deals with some outstanding issues in the history international macroeconomics of "Keynesian" and "Johnsonian" vintage, and disputes the conventional accounts of Harry Johnson's movement from Keynesianism to Monetarism during his tenure at the University of Chicago. In the context of the paper, Boyer attempts to show how Johnson explicitly, and his then Chicago colleague, Robert Mundell, were influenced by Milton Friedman, and *especially* by Friedman's 1953 essay on flexible exchange rates. Boyer brings together, from

a wide variety of sources, what he sees as compelling evidence of the Johnson–Mundell–Friedman nexus, and deals with the evolution of Johnson's view of Keynesianism. He then proceeds to outline, in detail, the transition in Johnson's thought in the context of the origins of the monetary approach to the balance of payments [MABOP]; going on to deal with Mundell's development of the notion of OCA, both, according to Boyer, based upon the *direct influence of the complete version of Friedman's 1953 essay, and not its better known, abridged form, in which,* according to Boyer *both of these ideas were elided*. Boyer also counterpoints the origins of the "Keynesian" view of the MABOP to the "Johnsonian" version, both as set out by Polak, as against Polak's assessment of Mundell's contribution to it. Boyer concludes by saying that, in effect, an intellectual "equilibrium", albeit *unstable*, characterized the Johnson–Mundell–Friedman connection while all three were at Chicago, and afterwards.

In his comment, Dror Goldberg comes to the defense of both Johnson and Mundell, arguing that, at most, they were "negligent and sloppy with regard to citation". He goes on to examine specific issues raised by Boyer, and asserts that Johnson's editing and abridgement of Friedman's 1953 essay, in his opinion, was "extremely reasonable". He continues on to maintain that the very title of Johnson's own paper on flexible exchange rates was a "great honor" that offset, in his view, Johnson's earlier attacks on Friedman. He goes on to justify his defense of Mundell by referring to the preface in *International Economics* where Mundell mentions Friedman, among many others, as having influenced him, seeing this as sufficient evidence of Friedman's impact on Mundell's ideas, in lieu of "exact references". Goldberg concludes by asserting that, according to Johnson, in his 1971 AER paper "The Keynesian Revolution and the Monetarist Counterrevolution", Friedman himself was lax in citation practice; with his own "quantity theory" approach having, in Johnson's view, at least, according to Goldberg having "merely reformulated Keynes's liquidity preference" approach.

In his paper, Warren Young attempts to systematically place the IS-LM approach in the framework of the Keynesian revolution. He focuses upon a number of issues relating to the relationship between the model and the revolution that emanated from Keynes's 1936 tome. In this context, he brings the reader back to an overlooked paper by Hicks, published in French in 1945, in which Hicks distanced himself from what he said in his own 1937 paper, that is to say that the *General Theory* is "the economic theory of depression". He goes on to discuss the equational–diagrammatic system summarizing what Hicks took, *in 1945*, to be representative of "Keynesian ideas", which included sequence analysis. IS-LM is nowhere to be found in Hicks's 1945 paper, except for a reference to his 1937 paper. Young then describes the diagrammatic approach of Klein (1947) and maintains that it is *identical* to that of Hicks's 1945 approach to Keynes. Following from this, he poses the question: why did the *Hicks–Klein* diagram not receive any attention by the economics profession, whereas the *Hicks–Hansen* diagram (IS-LM) became what Dornbusch and Fischer later called "the core" of modern macroeconomics. He then deals with the "sets of Keynesian ideas" and models characterizing the

ongoing Keynesian revolution. He goes on to illustrate the extensions and metamorphosis of the IS-LM approach via its plasticity and dynamization, going on to assess its canonization and dissemination.

In her comment on the paper, June Flander's outlines her objections to Hicks's 1937 approach, and highlights the importance of his 1945 paper, linking its emphasis on the "liquidity preference function" to Klein's later treatment of the 1945 "construct". She goes on to deal with the "caveats" Hicks specified regarding his 1937 SI-LL model, and criticizes the "disregard" of them by the economics profession, resulting in the widespread application of what was, in her view, a "pedagogical device of possibly useful and frequently dangerous value". She concludes by saying that the longstanding effect of Hicks's macroeconomic insights emanate from *Value and Capital* (1939), rather than his "little apparatus" of 1937 vintage.

David Colander surveys developments in macroeconomics from the 1930s onwards, and maintains that Keynes himself kept to "the classical methodology", albeit rejecting the "particular model" utilized by "Classical economists". He shows how, in the 1950s and 1960s, "grand synthesis" macroeconomic models emerged, based upon the amalgamation of general equilibrium, Keynesian theory and policy, and advances in econometrics. This *displaced* the emergence of a possible "complexity revolution" based upon non-linear dynamics. In his view, these models had "scientific" aspirations which were simply not met. With their *failure*, in the 1970s, what occurred was the *displacement* of the Keynesian research program by the New Classical Macroeconomics, which *was* "scientific". This brought about the exclusion, from graduate training, of "Keynes's method"; which in his view, consisted of the application of "pragmatic common sense. . .intuition and judgment based on institutional knowledge and experience". There was a "bifurcation", between undergraduate and graduate training; the former still utilizing models of IS-LM vintage, with the latter based on the DSGE approach; New Classical and New Keynesian alike. Colander argues that this not only has taken "Keynes's method" out of "academic macroeconomics", but has also gutted it from what he terms "central bank macroeconomics", especially in their research departments. Finally, he advocates different training for those destined for academia as against those who desire to go into "policy economics", e.g. central banks.

In his comments, Witztum maintains that Colander is more frustrated with the limiting nature of DSGE models than with "the betrayal" of Keynes's method. He takes issue with Colander's "disjunction between theory and policy", and points to a conundrum emanating from Colander's assessment of DSGE as "a much better scientific model" than "the IS-LM model". He goes on to say that "unlike Colander", he believes "that the real issue" is to deal *not* with "the question" of "how to separate policy from theory", and separate "the policy people from the theorists. . .in both teaching and research", but "how to do theory". He then states that "economic phenomena are social phenomena", and maintains that Smith and JS Mill had tied their analysis to "other aspects of social life", and "offered a genuinely complex simplified structure" that did not necessitate the "harsh" demarcation of theory and policy suggested by Colander. He goes even further by

saying that *both* Colander's interpretation of Keynes's "method" and DSGE models "are guilty of the same thing", that is, transferring the "economic problem" from the realm of "social" phenomena to that of the "as hoc" issues of determination and control of economic aggregates. Simply put, according to Witztum, "the DSGE models are true to Keynes's tradition". He concludes by saying "that there is still" much that can be ascertained "if we follow the more classical tradition" of economics as "a social theory" and not a "replicative process", as Colander would have it. In his view, the "state" of DSGE need not be the "reason to separate theory from policy". Rather, its "state" should be the "reason to expect better economic theory".

In his paper, Arie Arnon deals with the Wicksell–Keynes connection. Following a brief survey of developments up to Wicksell, he then discusses the main ideas outlined in Wicksell's 1898 volume, *Interest and Prices* and the second volume of his 1906 *Lectures* respectively. In dealing with the impact of Wicksell's volumes on Keynes's *Treatise* (1930) and *General Theory* (1936), Arnon makes the important point that "Keynes, when he came to know Wicksell's work, helped to make it accessible" to an Anglophone readership. Moreover, he notes that "the depth and timing of Keynes's acquaintance of Wicksell's theory is important", in light of the fact that between the *Treatise* and *General Theory*, "Keynes changed his own theoretical position". Arnon goes on to try to answer the question as to how Wicksell's approach came to Keynes's attention; this, most likely, in his view, via reading Hayek's works. He then turns to Patinkin's treatment of the Wicksell–Keynes connection, questioning Patinkin's view on the degree to which Wicksell was a "quantity theorist". He continues on to show the direct impact of Wicksell's volumes on Keynes's 1930 and 1936 tomes, and maintains that by 1936, Keynes "admits" his intellectual debt "to Wicksell", albeit by then having shifted his "focus" to the determination of employment rather than to "the price level". Moreover, given that by 1936 Keynes had "lost" his "trust" in "monetary policy", Arnon maintains that while "Wicksell ...was instrumental to the *Treatise*", in his view, "by the late 1930s", Keynes's enthusiasm for Wicksell had "disappeared".

In his comment on Arnon's paper, Warren Young deals with two issues. The first relates to the perception of Wicksell as an advocate of *activist* monetary policy. Young asks if Wicksell understood, and applied, an *early* version of *strong* rational expectations, and cites Wicksell himself regarding the possible impact if the outcome of "deliberate policy...can be anticipated and foreseen". He then deals with the issue raised by Arnon regarding Patinkin's view of Wicksell in the context of quantity theory, and Patinkin's disagreement with Swedish economists regarding this. Young provides an alternate possibility – that of the *canonization* of Wicksell's work by some Swedish economists, as an explanation of divergent positions held by Patinkin and them as to whether Wicksell was a quantity theorist or not. Finally, Young shows that Marget may have influenced Patinkin's views on Wicksell.

Robert Dimand's paper examines Keynes's prognostications regarding the international banking system in the context of his August 1931 essay examining the impact of a "collapse in money values" on the banks, first published in *Essays in*

Persuasion (1931). Ideas developed by Keynes in his essay, seldom cited, except in the financial fragility literature, are as relevant in 2009, according to Dimand, as they were in 1931, albeit with asset prices, rather than the general price level undergoing "collapse". Dimand outlines the evolution of Keynes's approach to debt deflation between "The Great Slump of 1930" and his June 1931 Harris Lectures, in which he emphasized "the significance" of nominal " debt contracts". He then concisely deals with the Keynes–Sprague controversy, and the crisis that catalyzed Keynes's views as expressed in the essay, and compares this to the situation between 2007 and 2009, noting that while "massive injections" into the financial system have limited the fall in prices, *nominal* "values of real assets" *have* fallen. Dimand then places Keynes's 1931 ideas on debts and deflation in the *General Theory* context, showing how they re-surfaced "as a key part" of Chapter 19. Bringing the story up to the crisis of 2007–2009, he tries to explain why policy responses in the US, UK and EU differed, attributing this to differences in "collective memories" of the crises of the 1920s and 1930s, and to the lessons of Keynes's 1931 essay.

In her comments, Elise Brezis focuses on the shocks and dynamics affecting the economic system in the Great Depression and the recent crisis, and their impact on the nominal-real variable relationship. She first delineates a "disequilibrium dynamics" approach as the basis for analysis of the "real effects" of "the collapse" in nominal values, and identifies Keynes's "animal spirits" with the "herding" characterizing the recent crisis. In her comparison of the Great Depression and recent crisis, she notes that it was "the herding effects" that "led to the beginning of the disequilibrium dynamics" that characterized the latter event. According to her, there are, however, a number of factors that differentiate between the two events: the fiscal and monetary policies adopted, and the existence of flexible exchange rates as against the gold standard. While the recent crisis may have been, ostensibly, overcome, she warns that the "problem of income inequality between the financial sector and the rest of the economy", does not bode well for the future. Brezis concludes that if a Paretian "circulation of elites" does not occur naturally to rectify this inequality, that is, if a "restructuration" of wealth is blocked by what she sees as the power of the "new financial intermediation sector", then a "longer and more latent crisis" *could* emerge, in her view, in the future.

In his paper, Alex Cukierman, in concise and lucid terms, first surveys the developments in modern macroeconomics up to the DSGE framework, and maintains that the "still unfolding global financial crisis. . .will challenge and modify the construction and use" of such models. He asserts that "an important limitation" on them is that they do not well reflect the incentives, constraints and behavior characterizing "financial intermediaries". He goes on to compare institutions, policy responses and their performance in the Great Depression and current crisis, and then assesses the lessons learnt from the former, and if they were applied during the latter event. Cukierman then turns to the current crisis itself to evaluate the nature of lessons that can be taken from the current crisis itself. He discusses the problems of financial "runs", the role of derivatives, the "too big to fail" issue, the problem of incomplete risk assessment, and reinterprets the liquidity

trap approach to the crisis. He then compares the New Keynesian and Real Business Cycle frameworks, and proposes that what has occurred is, in essence, a "*new neoclassical synthesis*". In his final section, he reflects upon the *limitations* of this, as they still do not include the *quality* of supervision and regulation, and concluded that researchers should now focus on incorporating these characteristics of an economy and the link between them, and "the likelihood of booms and busts".

In his comments, Avia Spivak outlines both agreement and disagreement with Cukierman's paper. In his view, Cukierman is correct in categorizing the recent crisis as less severe than the Great Depression due to (1) the expanded roles of governments and central banks; (2) improvements in international coordination regarding capital markets, trade flows, and exchange rates; and (3) lessons learned from errors made by central banks in the Great Depression regarding policy activism. Spivak points to Curkierman's insight regarding bank runs by depositors, as against runs "by banks on other banks or financial institutions", and the outcome of this, which affected the global financial system. With regard to disagreement, Spivak notes the absence in Cukierman's paper of "the political and intellectual background" to the growth of "shadow banking". He also questions Cukierman's "presentation of macroeconomics as going through a process of seemingly harmonic evolution centered" on the New Keynesian approach, which Spivak – citing Krugman – criticizes as lacking an "explicit financial system"; something which Cukierman also acknowledges as "missing", and whose development is "essential". He then illustrates the problem of the New Keynesian, as against the Keynesian approach, in analyzing the recent crisis in the US case. Spivak concludes that while Cukierman is correct in attributing "success" in preventing a new Great Depression to "lessons learned" from that of the 1930s and "changes in the institutional framework", this success had has little to do with "academic development in the macro area", as exhibited, *in his view*, by the shortcomings of *both* New Classical and New Keynesian approaches in foreseeing and analyzing the recent crisis.

In the final paper of the volume, David Laidler examines the connection between macro-economic crises and ideas, and counterpoints the contributions of Keynes and Lucas to modern macroeconomics in the context of "real world economic phenomena". In his view, Lucas has both misunderstood the evolution of modern economics and presented a flawed account of Keynes's role in it. He asserts that Lucas's criticism of Keynes's *General Theory* as an "unhelpful detour in the discipline's otherwise orderly history", resulting from the "circumstances of the Great Depression", is misplaced. He goes on to implicitly maintain that while Keynes *was* able to deal with "the economics of depression", the approaches advocated by Lucas, on the one hand, and Woodford, on the other, *cannot* "deal with some of the critical...features of any real world economy". Moreover, according to him, the inability of their respective approaches to deal with "the recent crisis" has, in turn, "created a crisis in macro-economics". Finally, he focuses on what he sees as the importance of "animal spirits" and conventions, albeit of Keynes (1936) and *not* Akerloff-Shiller (2009) vintage. In this context, he observes that "given available analytic techniques in the late 1930s", treating expectations as

"exogenous" may actually have been "a progressive step". He points out that the difference between Keynes and Akerloff-Shiller on "animal spirits", is that Keynes used the term to refer only to investor's "spirit of enterprise", while Akerloff-Shiller use it to "characterize any deviation" of agents "from the rational maximizing norm of neo-classical economics". He then deals with Keynes (1936) on money and co-ordination, and goes on to focus on the current relevance and contemporary significance of his work, linking it to "coordination failures that generate fluctuations in real variables". Laidler concludes by linking the possibility of cyclical recurrence of "theoretical ideas" and calls "for a reconsideration" of the "insights" of Keynes "into the mechanics of inter-temporal coordination in a monetary economy and their proneness to occasional failure"; also recommending this "reconsideration" to Lucas and those who follow his approach.

In his comments, Warren Young raises the question of whether Lucas and the protagonists of the New Classical and equilibrium business cycle approaches should actually be the address for Laidler's criticism. He points to the New Keynesian treatment of coordination failure as an equally valid target for Laidler's critique, and cites examples of the New Keynesian approach progressing *away* from Laidler's view of the significance of Keynes's *General Theory* treatment of coordination failure. He then turns to Laidler's discussion of Lucas's treatment of Keynes's *General Theory*, and compares it to that of Hicks. Finally, Young points to recent developments in the augmented real business cycle approach as possibly covering Laidler's criterion of thinking about "financial crises and the depression".

Laidler's response to Young provides a fitting summing up and conclusion to the volume. In it, he acknowledges positive and negative aspects of the New Keynesian approach, referring to his earlier paper (2007) when he dealt in detail with its "deficiencies". He goes on to reiterate what he sees as the central message of his paper in the present volume. As he puts it, "money and finance" should not be considered as "frictions" which can alter "the behavior" of a "well coordinated" economic system, and thus "need to be introduced as elaborations" of a "basic model". Rather, according to Laidler, "they [money and finance] are the socio-economic institutions through which coordination is", or occasionally, "is not. . .achieved". He continues on to say that they should be considered as an *integral* part "of the analytic story"; something which, in his view, Keynes showed how to do "in one coherent way". And, according to him, this is the reason why Keynes's work "is still", in his view, "theoretically interesting and important". Laidler then turns to the real business cycle approach and provides an interesting reference to Robertson's (1926) possible contribution – in the form of "appropriate fluctuations" – to its central tenet of "productivity shocks". He refers to his own work (2003) in which he elaborated on Robertson's account. Laidler sees the changing "technology of the financial system" as bringing about the shock to the "market" interest rate. He doubts whether the *present* state of the real business cycle approach can accommodate Robertsonian-style "inappropriate fluctuations" emanating from the financial sector, but concludes that since *both* the real business cycle and New Keynesian approaches are still "works in progress", they may, *in time*, be able to assist in addressing "our post-2007 problems".

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Making the Most of Anomaly in the History of Economic Thought: Smith, Marx-Engels, and Keynes

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Abstract A discrepancy between what we expect an author to say and what he actually does say should be an inducement to examine and, if necessary, adjust or even abandon the initial presumption. Unfortunately, all too often apparent anomalies are simply discarded as error or as unrepresentative, leaving the initial interpretation unaffected. The fruitfulness of according serious attention to apparent anomaly is illustrated by reference to Smith's case for government intervention in the credit market (his support of the Usury Laws), and the Marx-Engels appeal to the orthodox pricing mechanism in evaluating contemporary reformist schemes. My third case concerns Keynes's misrepresentation of Ricardian macro-economic policy, more specifically, his unwillingness to make use of his demonstrable awareness of Ricardo's actual position to support his argument against the Return to Gold at par in 1925. Here again we face an anomalous situation, though of a different sort to the first two. The object of the exercise is the same, namely to achieve a better comprehension of the author in question by resolving the anomaly, but in this instance – unlike the first two – I have not yet arrived at a resolution.

1. To which "classical" text do we send our students to convey the operation of the freely-operating competitive pricing mechanism in the effective allocation of scarce resources? My guess is that 99 out of 100 instructors start with the *Wealth of Nations*, the 99% including J.M. Keynes. For Keynes himself warned in 1946 against hasty recourse to import and exchange-rate controls which his own writings, he deeply regretted, had encouraged. Government intervention was required "not to defeat but to implement the wisdom of Adam Smith"; "I find myself moved, not for the first time, to remind contemporary economists that the classical teaching embodied some permanent truths of great significance.... There are in these matters deep undercurrents at work, natural forces one can call them, or even the invisible

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hand, which are operating towards equilibrium . . .” (Keynes 1980 [1946]: 44–45). And in *The General Theory* itself, Keynes had already written that “if our central controls succeed in establishing an aggregate volume of output corresponding to full employment as nearly as is practicable, the classical theory [of resource allocation] comes into its own again from this point onward” (Keynes 1936: 378).

What though are we to make of the notorious fact that Adam Smith justified a legal maximum to the interest rate – the usury laws which imposed a maximum of 5% on private loans – as a means of preventing “prodigals and projectors” from cornering the supply of loans (Smith 1976 [1776]: 357)? Jeremy Bentham at the time objected to Smith’s justification of a measure “to direct individuals in their private concerns” (Bentham 1952 [1787]: 128), and which (he feared) created obstacles in the way of innovative investment (168–169), and neglected evasion of the law (147). John Stuart Mill pointed to the aggravation of commercial crises by the exclusion of emergency borrowing by otherwise prosperous firms (Mill 1963–1991, 3: 924–925). Modern writers have expressed their utter bewilderment. Lord Robbins, for example, found Smith’s position inexplicable; his support for a legal maximum must have occurred “in an incautious moment” (Robbins 1968: 86). George Stigler described his position as an “aberration” (Stigler 1982: 122), and as “a strange argument” which “seems to assume that lenders would pay no attention to the probability of being repaid, but only to the promised interest rate. Surely it was inconsistent with Smith’s basic theory of sensible economic behavior; here the lenders are being foolishly shortsighted” (Stigler 1988: 208–209). Jacob Viner took Smith’s position seriously, as “involv[ing] an admission . . . that the majority of investors could not be relied upon to invest their funds prudently and safely, and that government regulation was a good corrective for individual stupidity” (Viner 1958 [1927]: 242). But here precisely lies the anomaly that begs for a solution: *Would the real Adam Smith please stand up*.

At this point I wish to express my bemusement that commentators of the highest caliber could rest content with expressions of regret regarding Smith’s “incaution,” “strangeness,” “inconsistency,” “mistakes,” and make little effort to understand what *appears* to be an anomalous position. For it is precisely the presence of anomalies such as this that provide a challenge better to understand the writer in question. In this I follow J.S. Mill’s injunction: “we cannot . . . too carefully endeavour to verify our theory” – read *interpretation* – “by comparing, in the particular cases to which we have access, the results which it would have led us to predict, with the most trustworthy accounts we can obtain of those which have been actually realized. The discrepancy between our anticipations [what we expect Adam Smith to say] and the actual fact [what Adam Smith actually does say] is often the only circumstance which would have drawn our attention to some important disturbing cause which we had overlooked” (Mill 1963–1991, 4: 332). Stigler’s perspective, to the contrary, calls for the discarding of unexplained residuals, in this case the excision of the usury passage from *The Wealth of Nations*: “Most mistakes are not of great consequence: Smith would not have had to make any changes in the rest of his big book if he had dropped the paragraph on usury laws. The reluctance to acknowledge mistakes is perhaps part of the committed

missionary zeal of scientific explorers" (Stigler 1988: 210). The case illustrated for Stigler an "attribute of able economists that ... they seldom admit or correct a mistake."[1]

I shall illustrate the potential fruitfulness of Mill's injunction applied to interpretation by reference to this and two other case studies. The first two are mirror images of each other – on the one hand, Smith's support for government intervention in the credit market; and on the other, the surprising appeal by Marx and Engels to the orthodox competitive pricing mechanism in approaching contemporary reformist, including socialist, schemes of various sorts. My third case is of a different order and relates to Keynes's distorted representation of classical macroeconomics despite his keen awareness of the true classical position. I shall appeal for advice from the Keynes specialists gathered here for possible solutions to this last conundrum.

2. I turn to the first case.[2] Smith commended the historical sequence of statutory regulations lowering the legal maximum to the ruling 5%, which are said "to have been made with great propriety" in that they followed downward movements in, while always remaining marginally higher than, "the rate at which people of good credit usually borrowed" (Smith 1976 [1776]: 106). Again: "In a country, such as Great Britain where money is lent to government at 3%, and to private people upon good security at 4 and 4.5%, the present legal rate, 5% is, perhaps, as proper as any"; for the legal rate "though it ought to be somewhat above, ought not to be much above the lowest rate" (357). The justification for a maximum which somewhat exceeds the range of rates appropriate for private borrowers with high credit ratings (our "prime rates") is made out carefully, and it should have been apparent from the outset that something was at play other than simple *error* or a passing fancy.

Firstly, a legal maximum set too low would be unsustainable: "If this legal rate should be fixed below the lowest market rate, the effects of this fixation must be nearly the same as those of a total prohibition of interest," and proscribing interest altogether "instead of preventing, has been found from experience to increase the evil of usury; the debtor being obliged to pay, not only for the use of the money, but for the risk which his creditor runs by accepting a compensation for that use. He is obliged, if we may say so, to insure his creditor from the penalties of usury" (356). Again: "When the law prohibits interest altogether, it does not prevent it. Many people must borrow, and nobody will lend without a consideration for the use of their money as is suitable, not only to what can be made by the use of it, but to the difficulty and danger of evading the law" (112). When loans at interest are legal but

[1]Stigler allows that Smith's failure to respond to Bentham in his final edition of 1789 might have been no more than a matter of "lethargy" (Stigler 1988: 209). Rumors did in fact circulate that Smith was converted by Bentham's arguments. Viner properly reserved judgment: "From the information available all that can be safely inferred is that Smith bore Bentham no ill-will for his criticism and possibly did not deny that it had some force" (Viner 1965: 19). Considering the great care with which Smith made out his case, it would greatly surprise me should it ever be established that he abandoned his support for the usury laws.

[2]For a full account of the episode, see Hollander 1999, upon which the present account is based.

a limit is set below prime the result is similar, since "[t]he creditor will not lend his money for less than the use of it is worth, and the debtor must pay him for the risk which he [the creditor] runs by accepting the full value of that use" (356–357). The limiting case in this regard is a maximum "fixed precisely at the lowest market price"; this too is unsustainable since "it ruins with honest people, who respect the laws of their country, the credit of all those who cannot give the very best security, and obliges them to have recourse to exorbitant usurers" (357).

Smith thus intended to preclude only transactions involving borrowers of relatively poor credit rating who would be prepared to pay interest much exceeding 5%. The market for "safe" loans would operate free of control, a feature that would justify Keynes's designation of Smith as "extremely moderate in his attitude to the usury laws . . . he defended [their] moderate application" (Keynes 1936: 352).

Secondly, where interest rates greatly exceeding the "lowest market rate" are legally available, Smith attributed to lenders a *bias* favoring high-risk loans rather than a roughly equal distribution of preference across the spectrum of opportunities; he, in brief, denied that – faced with such opportunities – lenders would impose control over purely speculative ventures, since lenders are *prejudiced* in favor of riskiness, the majority preferring to engage in high-risk lending should the opportunity present itself: "If the legal rate of interest in Great Britain, for example, was fixed so high as eight or ten per cent, the greater part of the money which was to be lent, would be lent to prodigals and projectors, who alone would be willing to give this high interest. Sober people, who will give for the use of money no more than a part of what they are likely to make by the use of it, would not venture into the competition. A great part of the capital of the country would thus be kept out of the hands which were most likely to make a profitable and advantageous use of it, and thrown into those which were most likely to waste and destroy it" (357). The bias is, however, reversed at a legal maximum rate of interest "fixed but a very little above the lowest market rate," for then "sober people are universally preferred, as borrowers, to prodigals and projectors. The person who lends money gets nearly as much interest from the former as he dares to take from the latter, and his money is much safer in the hands of the one set of people, than in those of the other." Smith presumes here that only prodigals are prepared to offer high illegal rates, and that lenders are loath to accept such inducements, while small inducements are insufficient to compensate the risk of non-repayment. "A great part of the capital of the country," he concludes, "is thus thrown into the hands in which it is most likely to be employed with advantage."

The lack of concern with the emergence of a black credit market at an appropriate legal maximum, contrasts sharply with the assumed inevitability of such an outcome in the event of a total prohibition of loans at interest. The essence of the matter is the argument that the 5% maximum is effective, in the sense of sustainable, since lenders engage in an effective rationing process whereby "prodigals and projectors" are excluded in favor of "sober" borrowers, thereby containing excess-demand pressures.

The contrast between the behavior of lenders who at the 5% maximum seek out "sober" borrowers and the overwhelming bias towards high-risk loans should the

legal maximum be set too high (or, by extension, where high interest rates are freely available), requires explanation. Smith's portrayal can, I suggest, be accounted for in terms of his general preoccupation with irresponsibility engendered by the promise of *excessive* returns. Thus: "The high rate of profit seems everywhere to destroy that parsimony which in other circumstances is natural to the character of the merchant. When profits are high, that sober virtue seems to be superfluous, and expensive luxury to suit better the affluence of his situation" (612). Furthermore, "[w]hen the profits of trade happen to be greater than ordinary, over-trading becomes a general error both among great and small traders" (438). Where profits are high, agricultural employers are prone to adopt inefficient methods: "The planting of sugar and tobacco, can afford the expense of [inefficient] slave cultivation" (388). Regarding "the situation" of the great landowner in pre-commercial society, he writes that "it naturally disposes him to attend rather to ornament which pleases his fancy, than to profit for which he has so little occasion" (385). Smith points to typically careless consumption behavior when items absorb only a small fraction of the budget (74). And most generally, "in public, as well as in private expenses, great wealth may, perhaps, frequently be admitted as an apology for great folly" (523, added in 1784 edition). A corresponding carelessness is ascribed to the labor market in cases where individuals work part time so that their salary constitutes a fraction of total earnings (131).

We may summarize the case thus: Preferences with respect to commodities, bonds and labor are not independent of budget and price configurations. In our specific case, Smith rejected universally-applicable behavioral assumptions – whether the assumption of "sensible economic behavior" (as Stigler put it) or the assumption that most investors could not be "relied upon to invest their funds prudently or safely" (in Viner's terms). All depends on the range of opportunities open to investors, the usury laws constraining the range of available opportunities within which lenders *could* be relied upon to offer finance prudently. In particular, to allow a high interest is unacceptable to Smith because it unleashes avarice to the social disadvantag*e* – very much an Aristotelian preoccupation (see Hollander 1999: 528–529; also Paginelli 2008). But though relatively tight markets tend to engender careful calculation, there are limits. For (as we have seen) legal interest rates set too low entail excess demand pressures on the part of "sober" borrowers that cannot be contained. In any event, Bentham's complaint that Smith neglected the potential emergence of black credit markets does not hold water, for he explains why potential excess demand at the appropriately set maximum is contained, in contrast with the illegal trades that would emerge at an inappropriately low maximum.

This is the main story emerging in the context of the usury laws. Adam Smith's justification of the contemporary usury laws was no "aberration" or "exception," but reflected his concern with unjustifiable risk-tolerance, such that in a wholly free credit market lenders' prejudice towards high-risk projects would predominate to the social detriment. But the matter is rather more complex. Smith's apparent confidence in the effectiveness of rationing imposed by lenders at the appropriate rate must be qualified in the light of concerns raised by local banking experience. The Scottish banks were, it seemed, unable to calculate objectively

the risk-worthiness of their clients, and accordingly engaged in the finance of inadvisable projects at the legal maximum. Not only that, but their incompetence was such that they themselves borrowed at effective rates far exceeding 5%, allowance made for compounding and costly commissions of different sorts; the practice of "drawing and re-drawing [bills of exchange]" might entail effective rates as high as 13–14% (Smith 1976 [1776]: 308). We are dealing with a failure of self-interest: "Had every particular banking company always understood its own particular interest" – and avoided inappropriate discounting of long-term investment projects – "the circulation never could have been overstocked with paper money" with dire consequences for the banks (302). The banks were not even aware of the nature of their loans, the "bold projectors" having disguised their operations: "It was a capital which those projectors had very artfully contrived to draw from those banks, not only without their knowledge or deliberate consent, but for some time, perhaps, without their having the most distant suspicion that they had really advanced it" (311). The hoped for control by lenders had thus not materialized, at least as far as concerned some bank accommodation.
3. I turn to my second case of "anomaly" in economic doctrine, and the potential fruitfulness of taking it seriously. I venture that few instructors would refer their students to Karl Marx or his co-worker Friedrich Engels for lessons in the operation of the workings of the invisible hand. After all, did they not focus on the anarchical character of capitalist production due in part to producers' ignorance of markets? For example: "No one knows how much of his particular article is coming on the market, nor how much of it will be wanted. No one knows whether his individual product will meet an actual demand, whether he will be able to make good his costs of production or even to sell his commodity at all" (Engels, *Anti-Dühring* (1878); *Marx-Engels Collected Works* 25: 259). The solution to the enormous waste of resources under capitalism, with an eye to cyclical instability in particular, lay precisely in "the socialized appropriation of the means of production" (266), or in "systematic definite organization" (270). And what of their attention to monopoly as characteristic of advanced capitalism – centralization, cartelization, trustification and the like?

Unlikely as it may seem, excellent lessons in the pricing system are to be discerned in the Marx-Engels texts, which have not always been properly addressed, if addressed at all, in the commentaries. Marx's technical account of the Transformation – spelled out already in the late 1850s, and again in 1861–1863 (and not only in *Capital 3*) – turns strategically on the orthodox pricing mechanism, and is directed against labor theorists, such as Karl Rodbertus (1851), who "seems to think that competition brings about a normal profit or average profit or general rate of profit by reducing the commodities to their *real value* . . ." (MECW 31: 260).[3]

[3]The *Theories of Surplus Value* provide especially impressive accounts of the "tendency" towards a uniform profit rate in terms of the demand–supply mechanism involving not only redistributions of resources, with corresponding output changes, but also – in fact to a greater extent – the allocation of *net* investment between industries. They immediately bring to mind the corresponding analyses by Walras (1954 [1874]: 225, 276, 305, 308) and by Marshall (1920: 592–593, 411–412, 418–419, 533). The process involves requisite knowledge of going rates which

But applications are my main interest today, and to these I turn. It is orthodox price theory, sometimes with a modern "Austrian" flavor, that provides the framework for much Marxian applied economics.

In *Poverty of Philosophy* Marx (1847) rejected, on price-theoretic grounds and in terms of the dynamics of growth, proposals for State confiscation of rent by James Mill, Cherbuliez and Hilditch (MECW 6: 203). Land-valuation indexes ("cadastres") – on which any confiscation would have to be based – were subject to continuous disturbance and, therefore, impractical: "[R]ent could not be the invariable index of the degree of fertility of the land, since every moment the modern application of chemistry is changing the nature of the soil and geological knowledge is . . . beginning to revolutionize all the old estimates of relative fertility"; moreover, demand patterns are subject to change: "fertility is not so natural a quality as might be thought [but] is closely bound up with the social relations of the time. A piece of land may be very fertile for corn growing, and yet the market price may induce the cultivators to turn it into an artificial pastureland and thus render it infertile" (203–204).[4]

A striking instance of Marx's respect for the market is provided by his objections to Napoleon III's plan to regulate French bread prices (13 December 1858; MECW 16: 110–114). His objection turns on the array of further interventions that would be required to enforce the controls. He draws on the experience of Paris which had instituted them locally, and where "the experiment proved a complete failure, the price of bread rising above the official maximum during the bad seasons, from 1855 to 1857 . . ." (111). His forecast regarding the extension to France as a whole in the case of "good years," and the maintenance of a price *floor*, emphasizes the unthought-of consequences of the proposed "artificial demand to be created through the means of 3 months' reserve." For "[i]mmense buildings for public granaries will become necessary over the whole of France; and what a fresh field they will open for jobs and plunder. An unexpected turn is also given to the trade in breadstuffs. What profits to be pocketed by the Crédit Mobilier and the other gambling companions of his Imperial Majesty! At all events, we may be sure that the Imperial Socialist will prove no more successful in raising the price of bread than he has been in attempts to reduce it" (114).

allow comparisons to be made by entrepreneurs of relative profitability; and the length of time particularly "high" returns must rule before responses to them occur (1861–1863; MECW *32*: 460). Mobility problems peculiar to supply and demand conditions are elaborated: "the speed of the equalization process . . . depends on the particular organic composition of the different capitals (more fixed or circulating capital, for example) and on the particular nature of their commodities, that is, whether their nature as use values facilitates rapid withdrawal from the market and the diminution or increase of supply, in accordance with the level of the market prices" (460–461). Also noteworthy is the role accorded *credit* in the adjustment of values to cost price, Marx citing the famous accounts by Ricardo of the role of bankers and others in the discount business (MECW *31*: 434).

[4]The objection has much in common with that of Adam Smith against "a land-tax assessed according to a general survey and valuation" (Smith 1976 [1776]: 836).

Repeatedly in his *Poverty of Philosophy* Marx insisted on the demand component: “The exchange value of a product depends upon its abundance or its scarcity, but always in relation to demand” (Marx 1847; MECW 6: 115); Proudhon “has simply forgotten about *demand*, and that a thing can be scarce and abundant only insofar as it is in demand”; Proudhon’s “abundance seems to be something spontaneous. He completely forgets that there are people who produce [a product], and that it is in their interest never to lose sight of demand” (116). All this was republished by Engels in the German edition of 1885. And in the Preface to that edition, Engels’s own appreciation of the allocative function of markets emerges strikingly. For he there attacks Rodbertus’s labor-money scheme precisely because of its neglect of the competitive allocation mechanism.[5] The passage is one of the most revealing in the entire Marxian literature:

> To desire, in a society of producers who exchange their commodities, to establish the determination of value by labour time, by forbidding competition to establish this determination of value through pressure on prices in the only way in which it can be established, is therefore merely to prove that, at least in this sphere, one has adopted the usual utopian disdain of economic laws.... [C]ompetition, by bringing into operation the law of value of commodity production in a society of producers who exchange their commodities, precisely thereby brings about the only organization and arrangement of social production which is possible in the circumstances. *Only through the undervaluation or overvaluation of products is it forcibly brought home to the individual commodity producers what society requires or does not require and in what amounts*. But it is precisely this sole regulator that the Utopia advocated by Rodbertus among others wishes to abolish (MECW 26: 287; emphasis added).

Engels’s appreciation of the market mechanism may be further illustrated from his important, though relatively neglected, “The Housing Question.” He there approached the working-class housing transaction as a “quite ordinary commodity transaction” subject to “the economic laws which govern the sale of commodities in general ...” (1872; MECW 23: 320; also 375). More specifically, on-going adoption of labor-displacing “machinery” and the pattern of regular trade cycles depressed average wages and employment and thus workers’ purchasing power, rendering the private provision of rental accommodation for labor unprofitable relative to alternative higher-class categories. By contrast, “bourgeois socialist” writers had no other explanation to offer for the housing shortage than to represent it as “the result of the wickedness of man,” as “original sin, so to speak” (341). In brief, Engels insisted on an objective price-analytic diagnosis to explain the housing shortage, in contrast with the vacuity of subjective appeals for increased provision based on “justice” and “right.”

[5]Rodbertus’s scheme entailed an advance by the state of labor tickets to capitalists, who allocate them to workers employed in privately-organized establishments according to labor contribution; in return the state receives consumer goods equivalent in value; and the tickets are dispensed by the recipients freely in the purchase of consumer goods made available at state outlets, *at legally required labor-based prices*, the labor tickets thus flowing back to the starting point. For elaboration of the scheme and Engels’s interpretation and criticisms thereof, see Hollander (forthcoming).

Engels's critique of protectionist policies is equally revealing. His "Protection and Free Trade" makes it very clear indeed that the Infant Industry case, which he had justified on standard developmental grounds in America, must be temporary (no more than say 25 years), and that protection was "by now becoming a nuisance" (1888; MECW 26: 526). His objections to protection are in line with those of Marx against price control. "Protection is at best an endless screw, and you never know when you have done with it. By protecting one industry, you directly or indirectly hurt all others, and have therefore to protect them too. By so doing you again damage the industry that you first protected, and have to compensate it; but this compensation reacts, as before, on all other trades, and entitles them to redress, and so on *in infinitum*" (526–527). Beyond this, technical progress was so rapid and revolutionary "that what may have been yesterday a fairly balanced protective tariff is no longer so today," engendering inter-industrial and political conflicts to assure the necessary modifications (527). But "the worst of protection" is that "when you once have got it you cannot easily get rid of it. Difficult as is the process of adjustment to an equitable tariff, the return to Free Trade is immensely more difficult" (528). For "[t]he legislature, by adopting the protective plan, has created vast interests, for which it is responsible. And not every one of these interests – the various branches of industry – is equally ready, at a given moment, to face open competition. Some will be lagging behind, while others have no longer need of protective nursing. This difference of position will give rise to the usual lobby-plotting..." (535).

Engels's objection to contemporary recommendations for government intervention in the credit market – as by Proudhon who sought to reduce the interest rate to 1% in the first interest and finally to zero – contrasts strikingly with the Smithian position. The presumption that the interest rate can be effectively regulated by legislation Engels rejected on grounds of the operation of competitive market forces which establish the return on loanable funds subject to adjustment reflecting concern with penalties on illegal transactions: "The rate of interest will continue to be governed by the economic laws to which it is subject today, all decrees notwithstanding. Persons possessing credit [i.e. credit-worthiness] will continue to borrow money at 2, 3, 4 and more percent, according to circumstances, just as before, and the only difference will be that rentiers will be very careful to advance money only to persons with whom no litigation is to be expected. Moreover, this great plan to deprive capital of its 'productivity' is as old as . . . the *usury laws* . . . which aim at nothing else but limiting the rate of interest, and which have since been abolished everywhere because in practice they were continually broken or circumvented, and the state was compelled to admit its impotence against the laws of social production" ("The Housing Question" 1872; MECW 23: 332–333, 388).

Here is a paradoxical situation if ever there was one. Marx and Engels – who so often focus on the market as destabilizing and who opted for Communism – yet read like the arch-conservatives von Hayek and von Mises in their approach to intervention in the market system (see further Hollander 2004, 2008: 401–406). And, compounding the apparent confusion, it is Engels who, unlike Smith, condemns the usury laws on price-theoretic grounds.

Now it is true that in the context of the trade cycle (particularly the crisis), Engels's focus is on the chaotic character of markets, whereas the basic Marxian model and the applications discussed above assume the market process to be equilibrating in the orthodox fashion. Yet this contrast must not be pushed too far, if we keep in mind a further dimension to his objection to Rodbertus. Rodbertus's preclusion of a "competitive" process, Engels observed, undermined his aim to solve the problem of crises, in fact worsened the problem. For however defective the signaling mechanism provided by competitive prices might be, Rodbertus's alternative was far worse – particularly in an international environment – for individual producers would then be operating "completely blindfolded": "As soon as the production of commodities has assumed world market dimensions, the evening-out between the individual producers who produce for private account and the market for which they produce, which in respect of quantity and quality of demand is more or less unknown to them, is established by means of a storm on the world market, by a commercial crisis. If now competition is to be forbidden to make the individual producers aware, by a rise or fall in prices, how the world market stands, then they are completely blindfolded.... [T]he producers can no longer learn anything about the state of the market for which they are producing ..." (MECW 26: 288).

We must attend now to the apparent anomaly that has emerged. The late T.W. Hutchison expressed amazement that Engels could have objected to Rodbertus for neglecting the rationing and information-yielding function of prices, without raising the same objection against the Communist organization that he championed, feeling – for Hutchison went further – no "intellectual or moral obligation to give some thought to the kind of economic organization which would, or could, follow" the demise of capitalism (Hutchison 1981: 14). Now rather than merely express amazement I treat the record as an *apparent* anomaly that invites investigation of the type of ideal system Engels had in mind for the future, for he gave considerable thought to the matter.

Rodbertus's scheme, as Engels understood it, retained significant features of a market system, yet rejected the competitive pricing mechanism. A similar complaint is addressed, in *Anti-Dühring*, against Dühring – that he wished to retain elements of the market system (including a circulating money medium) yet precluded its effective operation (1878; MECW 25: 275). This to Engels was an unacceptable half-way house. Like Marx, he perceived of an ideal system excluding markets – indeed excluding money – one involving centralized decisions on investment, output, pay and the absence of free consumer choice (see Hollander 2004, 2008). In short, he envisaged a rather primitive "war economy" – in the sense of the term elaborated by Lord Robbins 1976: 144 – entailing the production of goods selected by the planners, and allocated according to workers' claims to a specified bundle of goods. On this reading, the force of Hutchison's complaint against Engels, that he failed to admit that his criticism of Rodbertus for neglecting the information-yielding role of prices applied equally to his own scheme, is greatly reduced; essentially, there is no scope for the appearance of excess demands or supplies where quantities demanded as well as quantities supplied are centrally decided upon. It should however be emphasized that Marx and Engels were

proposing a "war economy" not for an emergency situation, with which Robbins was concerned, but permanently, or at least into the foreseeable future once their scheme had been put in place.

There are, of course, complexities, and we shall devote a brief word to them. For example, the planners would make allowances in their cost calculations, as shadow or accounting returns, for interest and rent based on the productivity contribution of land and capital and not only for labor ("Outlines of a Critique of Political Economy" 1844 etc).[6] And differential skills would be taken into account. Understanding Dühring as denying that differential values emerged as a result of compound labor, Engels pointed out in *Anti-Dühring* how fortunate it was "that fate did not make him a manufacturer, and thus saved him from fixing the value of his commodities on the basis of this new rule [of treating all labor equally] and thereby running infallibly into the arms of bankruptcy" (1878; MECW 25: 185). (It helps to remember that Engels was a successful, if unhappy, entrepreneur.) Under Engels's program, planners would ascribe "greater values" to productions of compound labor, though pay differentials would not be recognized: "In a socialistically organized society, these costs [of training] are borne by society, and to it therefore belong the fruits, the greater values produced by compound labour. The worker himself has no claim to extra pay." Now Marx had insisted in his "Critique of the Gotha Programme" on the need to recognize "unequal individual endowment and thus productive capacity of the workers as natural privileges" (1875; MECW 24: 86). But he intended specifically recognition of differentials reflecting "natural" characteristics, while Engels had in mind acquired characteristics involving training paid for by society as a whole. Acquired skills did not justify differential pay; natural advantage did (1878; MECW 25: 99). Claims beyond that were an "absurdity," considering the enormous range of individual character differences. And he cited *Capital* itself (1867; MECW 35: 70), to the effect that the idea of equality "already possesses the fixity of a popular prejudice." To find a denial of natural differences, we must go to the Enlightenment writers – including, of course, Adam Smith on the philosopher and the street porter, brought back to life in our day by David Levy and Sandra Peart (2008). Here we have another paradox to add to the roster.

4. My first two samples of anomaly – more accurately *apparent* anomaly – are drawn from allocation theory. I turn now to macro issues, specifically to Keynes. Ricardo, of course, was Keynes's *bête noire*: "If only Malthus, instead of Ricardo, had been the parent stem from which nineteenth-century economics proceeded, what a much wiser and richer place the world would be today! We have laboriously to re-discover and force through the obscuring envelopes of our misguided education what should never have ceased to be so obvious" (Keynes 1933: 144). This from the *Essays on Biography*. In *The General Theory*, J.B. Say and J.S. Mill are

[6]Marx, it will be recalled (above, 250–254), had cautioned that returns to land – and doubtless the point might be made with respect to capital too – could not be designated in physical terms. But this is the case in a market system, whereas the problem of measurement would be greatly reduced in the command scheme with its narrow bill of goods.

held responsible, along with Ricardo, for the proposition "that supply creates its own demand; – meaning by this in some significant, but not clearly defined, sense that the whole of the costs of production must necessarily be spent in the aggregate, directly or indirectly, on purchasing the product" (Keynes 1936: 18).

Now it so happens that Keynes's culprits were innocent of the charge against them. Ricardo, after all, sought to minimize the threat to general output and employment generated by monetary deflation when approaching the Return to Gold. Thus in *The High Price of Bullion* (1810–1811) he insisted on extreme caution in such an exercise: "I am well aware that the total failure of paper credit would be attended with the most disastrous consequences to the trade and commerce of the country, and even its sudden limitation would occasion so much ruin and distress, that it would be highly inexpedient to have recourse to it as the means of restoring our currency to its just and equitable value.... Before therefore they can safely pay in specie, the excess of notes must be gradually withdrawn from circulation" (Ricardo 1951–1973, 3: 94). Yet more striking is the recognition that permanent devaluation might be preferable should the excess of the market over the mint price of gold be of massive dimensions: "I never should advise a government to restore a currency, which was depreciated 30 pc^{t}., to par," he wrote to John Wheatley of 18 September 1821. "I should recommend ... that the currency ... be fixed at the depreciated value by lowering the standard, and that no further deviations should take place. It was without any legislation that the currency from 1813 to 1819, became of an increased value, and within 5 pc^{t}. of the value of gold, – it was in this state of things, and not with a currency depreciated 30 pc^{t}., that I advised a recurrence to the old standard" (Ricardo 1951–1973, 9: 73–74).[7] And in the Commons debate of 12 June 1822 on resumption, Ricardo spelled out the same opinion: "If, in the year 1819, the value of the currency had stood at 14*s*. for the pound note, which was the case in the year 1813, he should have thought that upon a balance of all the advantages and disadvantages of the case, it would have been as well to fix the currency at the then value, according to which most of the existing contracts had been made..." (Ricardo 1951–1973, 5: 208). Also in 1822, in *Protection to Agriculture*, this theme is repeated: "If, indeed, in 1819, or immediately preceding 1819, gold had been at 5*l*. 10*s*. an ounce, no measure could have been more inexpedient then to make so violent a change in all subsisting engagements, as would have been made by restoring the ancient standard" (Ricardo 1951–1973, 4: 223).[8]

[7]Wheatley, who himself supported devaluation, had misunderstood Ricardo, and Ricardo wrote to correct the misunderstanding.

[8]Ricardo's concern with the "short run" in the context of resumption is reflected also in the general case made for a paper currency. One major argument relates to the greater flexibility of operation by the monetary authorities in dealing with short-run difficulties. In 1811, Ricardo rejected any policy of checking note issues by imposing formal quantitative limits, precisely because of the need for flexibility (Ricardo 1951–1973, 6: 67). The concern with flexibility is apparent in the *Economical and Secure Currency* of 1816: "Amongst the advantages of a paper over a metallic circulation, may be reckoned, as not the least, the facility with which it may be altered in quantity, as the wants of commerce and temporary circumstances may require" (Ricardo 1951–1973, 4: 55). The advantage of credit elasticity in satisfying, rapidly, increases in the demand for liquidity –

One may insist on distinguishing between a demand contraction that is the "cause" of a depression, and one that merely accompanies it, the "cause" lying elsewhere. Yet this contrast in no way dilutes the profound significance of Ricardo's recognition of excess commodity supply and general unemployment due in the first instance to credit contraction. It is difficult to conceive a more dramatic refutation of Keynes's representations of Ricardo in the *Essays in Biography* and the *General Theory* than the approval of devaluation should that be required to avoid severe deflation.[9]

Keynes misrepresented his predecessors disgracefully.[10] And this is not the full story, since he managed further to distort the record by representing Malthus as precursor of the "true" doctrine, despite Malthus's "conservatism" regarding the Gold Standard and muted perspective on counter-cyclical monetary policy (Hollander 1997: 1003–1004). Ricardo went far beyond Malthus in the clear preferences given to devaluation if required to avoid severe deflation.

The problem is with Keynes, not with the classics.[11] Hayek, commenting on Keynes's "apparent ignorance" of the Ricardo position on the return to gold, wrote

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having in mind both fluctuations in "confidence," which affect the acceptability of non-monetary media of exchange, and the finance of expanding trade – is weighed heavily in the pamphlet, the distinction between legitimate and illegitimate accommodation even leading Ricardo to describe the advantage of paper money in terms of the opportunities created for "the judicious management of the quantity" thereby according a "degree of uniformity, which is by no other means attainable . . . to the value of the circulating medium in which all payments are made" (57–58). Ricardo's Parliamentary intervention of June 1822 confirms the foregoing perspective. He there objected to an assertion that note issues cannot be deficient in a convertible system, and focused specifically upon the short-run deflationary effects of a monetary contraction (Ricardo 1951–1973, 5: 199–200).

[9]As for J.B. Say, his recognition of aggregate-demand fluctuations as a source of depression and unemployment is apparent from his rejection of what came to be called the Treasury View, on the grounds that the capital constraint is a flexible one, such that expansion of any one sector is not necessarily at the expense of another: "On insiste trop sur ce principe que l'industrie est bornée par l'étendue des capitaux, et n'est bornée que par eux" (Say 1843 [1828–1829]: 345). In fact, the holding by firms of surplus funds was the *rule*: "Un pays renferme une immense quantité de petits capitaux inoccupés que les circonstances mettent en lumière." This is striking enough. But there is also allusion to the consequences for general output and employment of aggregate-demand fluctuations that characterize advanced manufacturing: "Il y a dans tous les pays où l'industrie est très-developpée, des moments où l'ouvrage ne va pas, et où la classe ouvrière toute entière est en souffrance. Ce malheur [tient] . . . à la nature des produits manufacturés qui sont en général exposés à de grandes vicissitudes dans la demande qu'on en fait" (90). We have too Say's interpretation of the French industrial depression of 1813, as the outcome of a contraction of demand for manufactures emanating from the agricultural sector (Say 1814, 1: 148). And there are allowances that in periods of deflationary expectations the concern of investors to avoid loss of interest characterizing quiescent times gives way, generating excess demand for money to hold (164). The same general perspective is, of course, found also in J.S. Mill's celebrated "Of the Influence of Consumption of Production" composed in 1830, and later in the *Principles*.

[10]On various aspects of Keynes's treatment of the Classics, see also Ahiakpor 2003.

[11]It is not the classical literature that is problematic. The so-called Law of Markets or Say's Law was never intended as a denial of short-term excess supply as Keynes represented it; but was designed to counter the proposition as expressed by Malthus or Chalmers or Sismondi or Smith

of “the surprising gaps in his knowledge of nineteenth-century English economic theory (and economic history)” (von Hayek 1978: 199, 231). “I ask myself often,” he continued, “how different the economic history of the world might have been if in the discussion of the years preceding 1925 one English economist had remembered and pointed out this long-before published passage in one of Ricardo’s letters” – that to Wheatley of 18 September 1821– that he “should never advise a government to restore a currency which had been depreciated 30% to par.”

Now, as I made clear, it is not a matter of one letter. Ricardo’s actual position emerges in a wide range of private and public pronouncements, so that it is scarcely credible that Keynes could have been unaware of it. And that my disbelief is confirmed, and Hayek’s charge against Keynes of total ignorance is proven unwarranted, can easily be demonstrated. That Keynes was aware of Ricardo’s position on the dangers of a Return to Gold at par emerges in *A Tract on Monetary Reform* (Bonar 1923), where Ricardo is said to have spoken “on the issue between deflation and devaluation . . . in clear tones the voice of instructed reason,” citing as evidence the speech of 12 June 1822 and the passage from *Protection to Agriculture* cited above (Keynes 1971 [1923]: 124). But here lies the conundrum: why did Keynes not refer to all this in his campaign of 1925 against the decision by the Chancellor of the Exchequer, Winston Churchill, to return to gold at par? It is saddening to read his account of nineteenth-century experience, which neglects to mention that Ricardo had distanced himself from the so-called “orthodox party” of his day: “The course of events in England during the nineteenth century is instructive. The wars of Napoleon brought an inconvertible managed currency for a period of more than 20 years, just as the Great War has brought us the same thing for a period of more than 10 years.... Then, as now, the orthodox party proclaimed that the one thing necessary was to restore gold convertibility; and a little more than a hundred years ago the deed was proudly done. The results were shocking. We suffered 20 years of successive credit maladjustments and crises, the most disturbed and troubled we have ever known, barely escaping revolution” (*The Nation and Athenaeum,* 21 March 1925; Keynes 1981: 339).[12]

(in some contexts) that secular output is necessarily accompanied by a deficiency of purchasing power, thereby precluding sales at unchanged prices and profits. In the absence of land-scarcity problems enhancing the real costs of producing the wage basket and thereby encroaching on profits, there were no limits to secular output expansion.

[12]A broader mystery remains, how it came about that Ricardo’s views were apparently lost from sight quite generally. Thus it has been proposed that “any decision not to return to gold at the pre-war parity carried very great political costs, given the unanimity of informed business, financial and political opinion in such matters,” and that this was one of the factors entering into Churchill’s decision to return to gold at $4.86 (Moggridge 1969: 66–67). But Keynes was not, in fact, the only one to have access to the true Ricardo. Bonar cites the relevant passages from *The High Price of Bullion* and the Wheatley letter in his “centenary tribute” to Ricardo’s Ingot Plan (Bonar 1923: 281–282, 293). Further study of those in the know, and the use – or non-use – made of such knowledge, is in order. Also promising dividends would be a systematic study of responsible authorities in Ricardo’s day, who – apart from Ricardo himself – made a case for devaluation over severe deflation, to the end of evaluating the strength of the “orthodox party.” Wheatley, as we have noted (see Note 7), is one candidate.

Keynes does, later in the year, mention Ricardo favorably in two respects: "Mr. Churchill has done what was expected, and the experience of a hundred years ago has repeated itself. With one improvement; – Ricardo's Ingot Plan, rejected then, has been adopted now, and the public are not to have back their sovereigns" (*The Nation and Athenaeum*, 2 May 1925; Keynes 1981: 357). Secondly, Keynes commended Ricardo's recommendation for "an appreciable margin between the buying and selling prices for gold, namely £3 17s. 6d. for the former and £3 17s. 10 1/2 d. for the latter," which if adopted would have provided some "limited protection" against the Bank's having to accept "unwanted gold in unlimited amounts" (*Economic Journal*, June 1925; Keynes 1981: 377–378). But these allowances – which somewhat lift the veil over what Keynes actually knew of Ricardo – provide scarcely a hint of the truth of the matter spelled out only 2 years earlier, and they are swamped by the reference to "the orthodox party" which "[t]hen, as now . . . proclaimed that the one thing necessary was to restore gold convertibility."

I cannot imagine that amnesia played any part in Keynes's failure to reinforce his campaign. Two years are nothing for a young man of 42. The matter remains a mystery to me. But even as things stand, one may perhaps be allowed to suggest that since Keynes already declined in 1925 to make proper use of his knowledge of Ricardo, it is less surprising than it otherwise would be that a decade later in the *Essays on Biography* and again in the *General Theory*, he should have entered his positively deformed reading. The direction had been set in the 1920s and merely taken a step further. I would only hope to avoid having to rationalize the matter in terms of a deliberate distortion of the truth by Keynes in order to aggrandize his stature as innovator. Is there perhaps an alternative suggestion?

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Hollander on Anomalies in the History of Economic Thought: Some Comments

David Laidler

The history of economics is often treated as a rhetorical arsenal, a storehouse full of weapons available for deployment in current battles. Economists should not be too apologetic about this, because they certainly did not invent argument from authority. But we should at least try to get our history right if we are going to use it this way. As Samuel Hollander's erudite and entertaining paper shows only too clearly, even the most scholarly among us – could there be a more distinguished trio of historians of economic thought than Lionel Robbins, George Stigler and Terence Hutchison? – can slip up when cherished beliefs are at stake, let alone such a notoriously agile and unscrupulous debater as John Maynard Keynes. My main duty as discussant of this paper, then, is to say that its moral is utterly convincing. When we find what looks like an anomaly in someone's writings, we should ensure that it is really there, rather than in our own careless or prejudiced reading of them. The specific comments that follow are strictly secondary to this central message.

Smith on Usury

First, to Adam Smith on usury: Hollander is right to hint that these ideas are more likely to appear anomalous to those who want to deploy the rest of Smith's economic thought in defense of the virtues of unregulated markets than to others. This is not to go quite so far as to concede that the ideas in question are convincing (to me at least), but Hollander is also right to stress that they are the result of careful reflection on Smith's part, not of a careless slip when dealing with a topic that didn't much interest him.

The fact is that Smith consistently took what is, to anyone well versed in today's microeconomic theory (though not I suspect in modern behavioural psychology) an odd but nevertheless systematic view of behaviour towards risk. He thought of agents as being driven by a particular kind of risk preference – a proclivity to believe that the odds are stacked in their own favour – and not just in capital markets either. For example, when he discusses the factors that influence relative wages and profits (Smith 1776, Book 1 Ch. X) he makes a great deal of the "overweening conceit, which the greater part of men have of their own abilities" and its consequence that "the chance of gain is naturally over-valued" while "the chance of loss is frequently undervalued." And this, he thought was true not just in the labour market, but in business ventures and lotteries too. Smith's discussion of these matters, copiously illustrated with examples, runs for six closely argued pages – pp.122–128 – not just a

sentence or two, and his later discussion of speculators and projectors, and how usury laws might rein in their behaviour, is in exactly the same vein.

More generally, of course, a prohibition on usury was by no means the only government intervention in the market-place that Smith supported. In the financial sector he also argued for the prohibition of small bank-notes, not to mention a legal requirement of specie-convertibility-on-demand for larger ones; and elsewhere he defended agricultural protection as well as the Navigation Acts. When one considers the importance of banking, agriculture and merchant shipping to the eighteenth century British economy, it is hard to think of Smith's vision for it as entailing a free trader's paradise! And it is also worth recalling that even his case for the market itself rested on its capacity for promoting the division of labour rather than – his comments on the motives of butchers and bakers notwithstanding – for enhancing opportunities for maximizing agents to exhaust the gains available to them from voluntary and mutually beneficial exchange.

Engels, Marx and the Market

In short, today's advocates of the market should be careful about how they deploy Smith in their own defense, and they probably should not wear ties bearing his profile either lest they be taken for dangerous interventionists (In the interests of full disclosure – yes I did once own and sometimes wear one). Perhaps, in the light of Hollander's second anomaly, they should consider sporting lapel-pin portraits of Friedrich Engels and Karl Marx instead. Among Hollander's three topics, this is the one I know least about, and yet, as someone who has not read carefully in this literature beyond the pages of *Capital, Volume I* (Marx 1867) I found much of what he had to say here unsurprising. Who could read this book without realizing that its author regarded competitive capitalism, for all its proneness to cyclical instability, as a formidable engine of economic growth, or that there are good reasons why historians of macro-economics routinely to refer to a Marx-Schumpeter tradition in the sub-discipline's development? I'm bound to say, though, that aware though I also was of Marx and Engel's contempt for such "utopian" socialists as Karl Rodbertus – only a "name" to me – I was surprised to see how much they relied on analyzing the demand side of market mechanisms in general and prices in particular to justify it, and downright startled to have their resulting affinities to those other later Austrians, von Mises and von Hayek, drawn so mischievously to my attention.

And yet, I wonder if Hollander's defense of Engels and Marx against Hutchison's accusation of inconsistency is ultimately satisfying. Hollander suggests that, though they didn't give any systematic and detailed account of what their true – as opposed to utopian – socialist economy might look like, there is enough in their writings to indicate that they had in mind what he calls a rather simple "war-economy" in which the need for decentralized allocative mechanisms fades into the back-ground. Maybe, and I'm certainly not qualified to argue the point, but I can't

help wondering whether such an economy – which clearly has no attractions at all for Hollander himself – does not bear too much resemblance for comfort to the one that Lenin and Stalin tried to create in the twentieth century, and whether attributing too firm a grasp of its nature to Engels and Marx is the best way to defend their reputations as great nineteenth century economic thinkers. Perhaps, then, those lapel pins should go into the drawer along with the Adam Smith tie.

Keynes on Some Classics

Fortunately, there is no need to wonder what distinguishing sartorial symbols the modern Keynesian should display, because the current crisis seems to have made Keynesians of everybody. Even so, Hollander's paper surely warns us that our Keynesianism, whether old or new-found and however sincere, had better be selective. Whatever his merits as a theorist – I discuss some of these at another session at this conference – Keynes' comments on the writings of his predecessors, including David Ricardo, were more often than not misleading, and surely willfully so on some occasions, as Hollander hints. Everything that Hollander has to say about Ricardo's views on the dangers of falling prices, particularly but not only when associated with sudden monetary contraction, is true. His sometime student Timothy Davis (2005) has recently documented the facts of this case thoroughly and persuasively for a new generation of readers and Hollander's regret that Keynes usually ignored these facts is well justified. But two qualifications that soften his indictment in this instance nevertheless might be added.

First, the supply and demand theory of the long run value of specie that underlay Ricardo's qualms about the deflationary effects of even a smoothly executed return to convertibility, and that led him to devise his ingot plan as an alternative to the restoration of a gold coinage, preferable because it would economize on the monetary system's demand for specie, is not to be found in the *Principles* (see Ricardo 1817, pp. 14–15, 86–87). There, a more thoroughgoing cost-of-production theory of natural price is deployed, and the authority of that great book did tend to distract the attention of later readers of his works from Ricardo's much more carefully nuanced and down-to-earth policy commentaries. If, moreover, Ricardo himself could overlook the nuances in question as he saw his *magnum opus* through three editions, perhaps we can forgive Keynes for falling into a similar oversight between the *Tract* (1923) and the "Economic Consequences of Mr. Churchill" (1925).

Second, when we come to the specific question of Keynes' preference for Malthus over Ricardo, we need to remember that the co-ordination failure emphasized in the *General Theory* (Keynes 1936) was not associated with the behaviour of the price level in the market for currently produced goods and services but with the role played by the rate of interest in the market where resources are allocated over time. In the light of this distinction, one can understand why Malthus' "oversaving" theory of the "general glut," which Ricardo had opposed, might have

seemed to Keynes more immediately related to his own concerns than Ricardo's speculations about the danger that sudden monetary contractions could create what we would nowadays call an excess demand for money. Certainly this would be quite consistent with the amount of attention that Keynes paid, for example, to John A, Hobson's under-consumptionism in the *General Theory* and with his neglect of the monetary explanations of the depression then recently expounded by, say, Ralph Hawtrey (1932) or Irving Fisher (1933).

Concluding Comment

But none of these comments detract in the least from Hollander's basic theme, namely that those who deploy history as a weapon in debates about current issues should at least try to get it right – or at least not to get it obviously wrong – and that historians of economic thought have a part to play in helping them with this task.

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