1 Classical economics and modern theory

An introduction

*Heinz D. Kurz and Neri Salvadori*

This volume contains a set of chapters written by the two of us, by one of us alone, or by one of us in collaboration with some other co-author, plus a letter to the author by Kenneth Arrow, here published as an appendix to one of the chapters. With the exception of Chapters 2 and 9 all chapters have been previously published. The collection is a follow-up to the 1998 volume with essays from us entitled *Understanding ‘Classical’ Economics: Studies in Long-period Theory* (Kurz and Salvadori, 1998a). Since the introduction to the latter contains a detailed discussion of what we mean by ‘classical’ economics and why we think it necessary to resurrect the ‘standpoint of the old classical economists from Adam Smith to Ricardo’, we can be brief here. The interested reader is asked to kindly consult our previous book. Since several of the chapters reprinted in this volume contain essentially a continuation of arguments developed in chapters published in the previous volume – some directly in response to critics of our work – the reader might find it useful to have also the previous volume at hand when reading this one.

The material is subdivided in five parts.

Part 1 deals with ‘Classical theory and its interpretations’ and has five chapters. Chapter 2 is a paper written in response to Mark Blaug’s criticism of the ‘Stauffman’ interpretation of the classical economists published in 1999 in *HOPE* (Blaug, 1999; see also Blaug, 1987). A considerably shortened version of our chapter was published in the same journal entitled ‘The surplus interpretation of the classical economists: a reply to Mark Blaug’ (Kurz and Salvadori, 2002). In the chapter we show that Blaug’s criticism cannot be sustained and that (unwittingly) he has himself adopted a very special variant of Staff’s surplus-based interpretation of the classical economists’ approach to the theory of value and distribution. Chapter 3 presents a short prehistory of input–output analysis. It is argued that the concepts of circular flow and physical real costs can be traced back far in the history of political economy. In addition it is argued that modern input–output analysis has lost sight of important problems raised and solutions provided by classical

1. For a still more complete picture of our ideas on the matter, see also Kurz and Salvadori (1995) and our entries in Kurz and Salvadori (1998a).

2. See also the rejoinder by Blaug (2002) and the reply to Blaug by Garegnani (2002).
Classical economics and modern theory

2. Hume, D., Marx, K., and R. Sellars (eds.)

The analysis of established accounts and explanations en masse is not necessary to the development of the system of economic relations. The critical review of the existing works, and the presentation of new results, has been the subject of extensive research by economic historians. The contributions of Hume, Marx, and Sellars are particularly relevant in this context.

3. German economic historian, Friedrich List, and German economic historian, Karl Marx, are two scholars whose work contributed significantly to the development of classical economics.

4. Classical economics is characterized by the emphasis on the determination of the system of economic relations through the market mechanism. This approach contrasts with the neoclassical view, which emphasizes the role of individual rational choice and the equilibrium of supply and demand.

5. The concept of classical economics is further elaborated in part 2 of this chapter, where the development of economic thought is discussed in detail.
input-output model with exhaustible resources and discusses the development of relative prices, royalties and quantities, given the real wage rate.

Part V has four chapters devoted to 'Criticism of neoclassical theory'. Chapter 15 discusses the implication of reverse capital deepening for neoclassical theory, placing special emphasis on the role of the numéraire. It is shown that under certain assumptions a supply function and a demand function for capital can be built up that are independent of each other. The question is whether a change in the numéraire affects the mathematical properties of the economic system under consideration. We argue that this is not possible. In particular we show that a change in numéraire affects both the supply and the demand functions for 'capital' in marginalist theory but leaves the stability property of equilibrium, if there is one, unaffected. The chapter was inspired by a note by Paolo Potestio which was later published (1999; see also our reply, 2001, to her). Chapter 16 is rather technical and simplifies the famous numerical example of reswitching presented in Garegnani (1970). Chapter 17 is a review of the collected papers by Franklin Fisher entitled Aggregation: Aggregate Production Function and Related Topics (Fisher, 1994). The chapter illustrates the difficulties involved in aggregating capital as studied by Fisher and remarks that if firms produce different commodities and labour is the only primary factor, then the aggregate production function exists if and only if the labour theory of value holds. This is a result which played some role in the reswitching debate: Garegnani (1970), for instance, proved that the marginalist theory was exempt from criticism only in this case. Nevertheless, Fisher mentions the UK Cambridge contributors to the debate only in order to criticize them. Chapter 18 deals with Knut Wicksell's theory of capital and interest and contributes to the recent debate on Wicksell's so-called 'missing equation'. It is argued that there is no equation missing in Wicksell: he took as given the 'quantity of capital' the relative scarcity of which was taken to hold the key to an explanation of the rate of interest. However, Wicksell became increasingly aware of the fact that he could take as given only the value of capital, measured in some consumption unit. This destroyed the alleged analogy between the factor of production (heterogeneous) 'capital' and its remuneration, interest or profit, on the one hand, and that of (homogeneous) land and its remuneration, (intensive) rent, on the other.

References


