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The Reconstruction of Political Economy: Alternative, Parallel Paths to Rediscovering the Distinctively Classical Surplus Approach

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2.1 Introduction

Jan Kregel has been an important contributor and participant in virtually every major debate and discussion concerning economic theory and policy in the last forty years. Known around the world for his razor-sharp analytical acumen, encyclopedic knowledge of economic history and the history of economic doctrine, non-dogmatic approach to the most difficult questions in political economy and creative synthesis of theoretical and institutional analysis, Kregel has successfully tackled issues ranging from capital theory and the uncertainty of investor expectations to value theory and monetary policy; from the special challenges of developing and transitional economies to the analysis of the stock market and financial fragility; and from the complex philosophical problems of method to the pragmatic difficulties regarding economic policy.

First a student and later a respected colleague of such 20th century luminaries as Joan Robinson and Nicholas Kaldor in Cambridge, England and Paul Davidson, Alfred Eichner and Hyman P. Minsky in the United States, it is no exaggeration to say that Kregel is one of – if not the leading figure in the area of international and financial economics and political economy in the world today. As Geoff Harcourt remarked to me in 2006 at the conference at the University of Missouri, Kansas City celebrating the 70th anniversary of the publication of *The General Theory*
of Employment, Interest, and Money by John Maynard Keynes, 'Ian Kregel is the greatest living general economist'.

As a young graduate student, Kregel confronted head on the cutting edge problems in the discipline - the capital controversies, the revival of the classical approach to value and distribution, the critique of bastard Keynesianism and the development of an appropriate methodology for incorporating money, uncertainty and historical time into the analysis of the determination of output and employment in the economy as a whole. As one of the original organizers (along with Garegnani and Parrinello) of the famous Trieste School for Advanced Economic Studies that brought together Post-Keynesians, Sraffians, Kaleckians, Circuit theorists and Marxists, Kregel emerged as one of the very few participants of whom it can be said: his understanding of the strengths and weaknesses of each of the approaches represented there is as deep and as nuanced as that of the respective leaders of each of the branches of the new heterodox political economy.

Kregel's early works such as The Reconstruction of Political Economy (1973), Rate of Profit, Distribution, and Growth (1971), The Theory of Economic Growth (1972) and Theory of Capital (1976), based on his lectures on both sides of the Atlantic, remain to this day much more than minor classics in their fields, constituting not only a careful, comprehensive and concise survey of over 200 years of economic doctrine, but at once a devastating critique of the orthodoxy and a penetrating critical synthesis of alternative traditions, laying the groundwork for a constructive theoretical framework in historical and institutional context. His famous Journal of Economic Literature article co-authored with Alfred Eichner heralded Post-Keynesian Economics as a new paradigm in the discipline of economics, and his Economic Journal article on 'Economic Methodology in the Face of Uncertainty' is now widely recognized as, after Keynes himself, the seminal work on the subject. Kregel's work on the theory of value, expectations and the determination of aggregate economic activity not only constitutes a path-breaking approach to the solution to problems plaguing political economy since Petty, but is directly relevant to the complex issues of the 'economic society in which we live' - a dynamic, money-using, high-tech capitalist economic system with complicated financial instruments.

Against the view of continuity in the history of economic thought from classical to neoclassical (or marginalist) economics insisted on by Marshall and later by such authors as Jacob Hollander and Samuelson, Kregel followed Staffa and Robinson in viewing the transition between the two schools as a sharp break. While some marginalists such as Jevons
also rejected the continuity interpretation, for Sraffa and his followers the project was not to lay the classical authors to rest, but to revive the classical or surplus approach as an alternative theory of the operational tendencies of capitalism relevant to the current political economy. For Kregel, this reconstruction meant 'Classical Political Economy with the inclusion of the theory of effective demand in a monetary economy (or without Say's Law and the Quantity Theory of Money)' (1973, p. xvi). Kregel has often referred to Robinson's 'generalization of Keynes's General Theory', by which he meant extending the short-run analysis of Keynes's principle of effective demand to a theory of growth and development in the sense of the classical economists.

Like Sraffa, Adolph Lowe also interpreted Classical Political Economy as a different school of thought from neoclassical economics. Taken individually and as a whole, the similarities and differences in the views of Sraffa and Lowe on these matters permit a number of interesting insights and raise a few thought-provoking questions concerning a host of areas of prime concern to Kregel, including the history of ideas, economic theory, economic methodology, the scope of economics, historical and institutional analysis and the project of constructing an alternative approach to economics. The similarities between the views of Sraffa and Lowe concerning classical economics are striking, because they appear to have developed quite independently and so may be of interest also for historians of science and social science. The differences are notable because for the most part they constitute views that are complementary rather than opposed.

The rest of the chapter proceeds as follows. In Section 2.2, Sraffa's and Lowe's roles in reviving classical theory are outlined and compared. Section 2.3 briefly examines three additional issues of commonality: a debate with Hayek, concern with technological unemployment and J. S. Mill as a transitional figure in the decline of classical economics and the rise of marginalism. Section 2.4 considers the respective views of Sraffa and Lowe on the scope and method of classical economics, drawing on views put forward by Kregel in suggesting a potential solution to some methodological issues. A brief conclusion is provided in Section 2.5.

2.2 Sraffa, Lowe and the revival of classical economics

Consideration of the personal similarities between Sraffa and Lowe is not a purpose of this chapter. However, it is worth noting that they were born five years apart, Sraffa in 1898 and Lowe in 1893; both came from Jewish families from continental Europe, Sraffa from Italy and Lowe
from Germany; both were affected by the rise of fascism with Lowe dismissed from his position at Frankfurt University for political reasons shortly after Hitler came into power in 1933 while Sraffa’s articles on the Italian banking system in the early 1920s had angered Mussolini and he was later interned in England as an enemy alien for a short time following Italy’s entry into the war. Both scholars had continental European educations, which helps explain their common appreciation for the writings of the great thinkers of the past, but both also left their countries of birth for England, Sraffa in 1927 and Lowe in 1933, where they both accepted university posts (Sraffa at Cambridge and Lowe at Manchester). While Sraffa remained at Cambridge for the rest of his career, Lowe left England in 1940 when he accepted a position at The New School for Social Research, where he spent the remainder of his long career before returning to Germany in 1983 (the year Sraffa passed away). In another interesting connection, Sraffa also considered moving to The New School in 1940, as he was a close friend of at least one member of the faculty there, the political scientist Max Ascoli.

It appears that both Sraffa and Lowe clearly distinguished the classical and neoclassical schools from the start. Interestingly, an early common distinction they both appear to have made concerned the practical relevance of the respective approaches. Lowe recalled that:

Having been brought up by my teacher Franz Oppenheimer on Ricardo and Marx I found it easy to look through the formal brilliance of the Walrasian system or even the persuasive common sense of Marshall, to the barrenness of neoclassical economics when judged by its applicability to the real world. (1980, p. 247)

In ‘The Laws of Returns Under Competitive Conditions’ Sraffa remarks that the marginalist theory of value:

more than any other part of economic theory, has lost much of its direct bearing upon practical politics, and particularly in regard to social changes, which had formerly been conferred upon it by Ricardo and afterwards by Marx. (1926, p. 535)

In contradiction to the perspective that draws the line of descent from Ricardo to John Stuart Mill to Marshall, and bypasses Marx, they both viewed Marx as part – and in many respects the apex – of the classical tradition. As we will see, they also both viewed Mill as departing from the classical tradition in important respects and opening the way
for Marshall to make the full break (see Dobb 1973; Das Gupta 1985; Bharadwaj 1986).

While Sraffa’s *Production of Commodities by Means of Commodities* was not published until 1960, ‘the central propositions had taken shape in the late 1920’s’ (Sraffa 1960, p. vi). These ‘central propositions’ are part of an ‘investigation...concerned exclusively with such properties of an economic system as do not depend on changes in the scale of production or in the proportions of “factors”’. He continues:

This standpoint, which is that of the old classical economists from Adam Smith to Ricardo, has been submerged and forgotten since the advent of the ‘marginal’ method. (Sraffa 1960, p. v)

Appendix D of *Production of Commodities by Means of Commodities* is entirely dedicated to highlighting the ‘connections of this work with the theories of the old classical economists’ (1960, p. 93). Quesnay’s *Tableau Économique* is cited for its depiction ‘of the system of production and consumption as a circular process’, which ‘stands in striking contrast to the view presented by modern theory of a way-one avenue that leads from “Factors of production” to “Consumption goods”’ (1960, p. 93).

Ricardo is then cited for ‘singling out corn as the one product which is required both for its own production and for the production of every other commodity’:

As a result, the rate of profits of the grower of corn is determined independently of value, merely by comparing the physical quantity on the side of the means of production to that on the side of the product, both of which consist of the same commodity. (1960, p. 93)

This is the method used by Ricardo in his *Essay on the Influence of a Low Price of Corn on the Profits of Stock* (1815), put forward as the ‘corn-ratio theory’ of profits by Sraffa in his 1951 ‘Introduction’ to Ricardo’s *Principles of Political Economy and Taxation*. Corn thus plays in Ricardo’s system in the *Essay on Profits* the role of a ‘basic commodity’ in the terminology of Sraffa’s *Production of Commodities by Means of Commodities*.

Sraffa writes that the ‘rational foundation of the principle of the determining role of the profits of agriculture [in Ricardo’s *Essay on Profits*], which is never explicitly stated by Ricardo, is that in agriculture the same commodity, namely corn, forms both the capital (conceived as
composed of the subsistence necessary for workers) and the product’ (1951, p. xxxi). Importantly, Sraffa informs us that:

it was only when the Standard system and the distinction between basics and non-basics had emerged in the course of the present investigation that the above interpretation of Ricardo’s theory suggested itself as a natural consequence. (1960, p. 93)

Ricardo’s theory is then related back to the Physiocratic notion of the ‘produit net’ and Marx’s emphasis on the “physical” nature of the surplus in agriculture’ (1960, p. 93). We thus have the full expression of production as a circular process, the central role of the surplus and the important distinction between basic and non-basic products.

Several more points of contact with the classical economists are made in Appendix D by Sraffa. These include Ricardo’s conception of the standard measure of value, Adam Smith’s labor commanded theory, Marx’s notion of a maximum rate of profits corresponding to a zero wage and the treatment of fixed capital as a joint product (1960, pp. 94–95).

Lowe and his colleagues were also working on reviving the classical tradition during the 1920s, when he was the Director of Research of the Institute for World Economics at Kiel University. Interestingly, David Clark has remarked that the atmosphere at Kiel ‘was greatly enlivened by what appears to be an interesting equivalent to Keynes’s Political Economy group which was operating at Cambridge at the same time’ (1984, p. 114). Led by Lowe, the Kiel group was struggling with issues regarding accumulation, employment and structural and technological change. The marginalist approach of the Austrian school was felt to offer little aid, and the search for an adequate framework led them back precisely to the circular production models of Quesnay’s Tableaux and Marx’s schemes of reproduction, which they incorporated into their analyses of fixed capital and technological unemployment in relation to the path of economic growth.

In the course of their investigations, a puzzle emerged. Working with his colleague, Fritz Burchardt, Lowe began with a technical sequence of production depicting working capital moving through a series of successive stages en route to becoming final output. For example, we can follow working capital through a series of transformations, such as cotton-yarn-cloth-dress in dress production or wheat-flour-bread in the production of bread. At each stage, labor (N), fixed capital (F) and natural resources (R) combine to produce the working capital (W) as output:
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\[ N_1 \odot F_1 \odot R_1 \rightarrow w_1 = \text{cotton} \]
\[ N_2 \odot F_2 \odot R_2 \odot w_1 \rightarrow w_2 = \text{yarn} \]
\[ N_3 \odot F_3 \odot R_3 \odot w_2 \rightarrow w_3 = \text{cloth} \]
\[ N_4 \odot F_4 \odot R_4 \odot w_3 \rightarrow w_4 = \text{dress} \]

Capital letters indicate stocks, lower case indicate flows. Output at the last stage is a final good.

It is clear that at every stage except the first, the working capital that was the output of the previous period, \( w_{n-1} \), is also an input. In this picture, working capital appears as depicted in the Austrian linear view: the process can be traced back from the final output through each intermediate stage to an initial stage in which no working capital had been taken over from a previous stage. However, the picture, as thus far presented, does not explain the origin of the fixed capital. In addition, mere accounting for the origin of fixed capital would only suffice to guarantee temporary provision; permanency or continuity of production requires the ongoing replenishment of stocks undergoing wear and tear in the production process and thus a second sector in which fixed capital equipment is produced and reproduced. Thus, if \( F_1 \) through \( F_4 \) are identified as gin-spindle-loom-sewing machine, a technical sequence of production of several stages may be derived for each, similar in structure to that of dress production, but with inputs of a nature appropriate for the production of the equipment good at hand as final output. The weakness of this ‘solution’ is immediately revealed, as another production flow will now be required to account for the production of the fixed capital used to produce each of gin-spindle-loom-sewing machine. The analysis appears mired in an infinite regress. Lowe rejected the possibility that industrial production could be accurately described by such an infinite regress, demonstrated by the permanency of the actual industrial system. The Austrian solution was to posit some original stage in which only labor and natural resources were used. This was rejected on a number of grounds, including historical, theoretical, empirical and common sense.

The solution to the puzzle appeared as a result of a clue provided by the other example given above, that of bread production. In specifying the input requirements for bread production, one in particular stands out:

We can imagine dispensing with plows, even human labor, and yet raising wheat, but we cannot imagine dispensing with another input so far not mentioned: seed-wheat. But what is seed-wheat and how is
it obtained? It so happens that it is physically identical with the semi-
finished output bread-wheat, and it is a moot question whether it can
really be called a natural resource. But whatever the correct classifica-
tion may be, seed-wheat not only is indispensable but it possesses an
outstanding quality which is absent from flour and bread, from plows
and mills and ovens: the power of self-reproduction. Differently
stated, seed-wheat as an input is capable of producing two types of
outputs: bread-wheat as a potential consumer good and seed-wheat
as its own replacement good. (1977 [1965], pp. 269–70)

The technological condition for continuous reproduction of wheat is
the physical identity of the input and output; that is, its capacity for
self-reproduction. A similar condition might also explain the seeming
paradox of infinite regress in the replacement of fixed capital. Lowe
searched for a special equipment good that was capable of producing
other equipment goods as well as reproducing itself:

What we actually find is not one such mechanical instrument, but a
comprehensive group which is defined as machine tools. In conjunc-
tion and combined with labor and working capital goods such as steel,
machine tools are the progenitors of all other machinery and also of
themselves. For the physical maintenance of an industrial regime of
production they play the same strategic role as seed-wheat plays in
agriculture, and the reproductive system plays in the maintenance of
organic life. (1977 [1965], p. 270)

Lowe has cited this revival of the circular view of production as the
product of the heuristic search procedure at the core of his instrumen-
tal analysis. In fact, he later referred to section 3 of chapter 11 of
On Economic Knowledge as ‘the re-enactment of the “discovery” of the
circular nature of an industrial structure of production’ (1969, p. 184
n.25). This ‘discovery’ is variously recounted by Lowe (1952, pp. 36–37;
(1931–32), oft cited by Lowe in this regard and the drafting of which
Lowe participated in, grew out of the collective discussion and investi-
gations at Kiel during the 1920s (Lowe 1952, p. 32; 1959, p. 63; see
also Hagemann 1990, pp. 148–49). Note that the machine tools sector
in Lowe’s model plays the same role as a ‘basic industry’ in the Sraffa
system (see Hagemann 1990, p. 152).

We have here a highly interesting phenomenon in the history of
ideas. It would be of interest in and of itself if Sraffa and Lowe (and Kiel
colleagues) had independently rediscovered the classical approach, both focusing on a single key characteristic. But what makes this case all the more fascinating is that, while Sraffa’s discovery took place while investigating the theory of value and distribution (and was ‘concerned exclusively with such properties of an economic system as do not depend on changes in the scale of production or in the proportions of factors’), Lowe’s discovery occurred while investigating the theory of accumulation and technical change. Lowe makes no explicit reference to prices at all at this stage of his ‘structural analysis’; he is concerned with physical-technical consistency conditions that are independent of prices.

Lowe has remarked that ‘it is hardly an exaggeration to say that the standard works of the classical economists – Smith, Ricardo, Marx – not only contain but essentially are theories of economic growth’ (1976, p. 5). Moreover, Lowe has put forward the view that ‘upon this issue of endogeneity versus exogeneity [of “metaeconomic conditions” such as “behavioral patterns and the institutional environment”], rather than upon conflicting theories of value, hinges the main difference between genuine classical theory and post-Millian reasoning, including all versions of neoclassical analysis’ (1987 [1954], pp. 107–08).

Both Sraffa and Lowe revived the classical approach, highlighting the same specific key issue regarding the physical identity of input and output to lay bare the circular aspects of production. They do so, not only investigating different areas of economics – value for Sraffa and growth and structural change for Lowe – but also each conducting his analysis while abstracting from the issues of central concern to the other.

2.3 Debates with Hayek, technological unemployment and J.S. Mill’s transitional role

Both Sraffa and Lowe viewed the revival of the classics as the basis for an alternative theory for studying the contemporary political economy, not simply for the sake of contributing to the history of economic ideas. Both ‘rediscovered’ classical theory while struggling with theoretical questions arising out of their analyses of modern economic systems, not as a result of exploring issues in the history of economic thought proper. In both cases, their interpretation of classical theory came out of their struggle with these analytical questions, rather than starting with an interpretation of classical economics and then applying it to the contemporary political economy.

Three other relevant areas of contact may be noted. First, Sraffa and Lowe both engaged Hayek in direct debate and criticism. Second, both
economists dealt with issues related to Ricardo's chapter on machinery and technological unemployment. Third, John Stuart Mill is cited by both Sraffa and Lowe as contributing to the decline of the classical approach and the rise of marginalism.

In their (independent) debates with Hayek, both Sraffa and Lowe focused on Hayek's monetary theory of the cycle and his Austrian view of the underlying structure of production. Lowe was on the opposite side from Hayek during the business cycle debates in the German-speaking countries during the late twenties and early thirties (see Hagemann 1994). Sraffa (1932) wrote a devastating critique of Hayek's *Prices and Production* in the *Economic Journal*. Both also later specifically criticized what Lowe (1976, p. 34 n.6) called the 'linear imperialism' of the Austrians and Sraffa (1960, p. 93) called the 'one-way avenue that leads from "Factors of production" to "consumption goods",' as part of their more general critique of neoclassical theory. Examinations of the Sraffa-Hayek debate often refer to the Lowe-Burchardt circular view of the production process (sometimes as presented by Nurkse, 1934–35) and the critique of the Austrian linear view (Desai 1982; Kurz 2000).

Lowe's underlying motivation for the study of modern industrial systems and their interlocking sectoral dynamics was the problem of unemployment in capitalist economies. One of the important questions Lowe posed with his model was under what conditions could full employment be maintained once it is attained, by whatever means. In *The Path of Economic Growth* (1976) Lowe demonstrates the unlikelihood of market-based mechanisms to guarantee full employment in the face of ongoing structural and technological change, encompassing changes in the supplies of labor and natural resources, and capital-displacement and/or labor-displacement processes. The problem of technological unemployment was a major concern of Lowe. As far back as the 1920s, Lowe rejected static equilibrium models as unsuitable for analyzing systems exhibiting periodic fluctuations and called for uncovering the endogenous determinants of business cycles. While others thought that monetary crises led to the trade cycle, Lowe claimed that these explanations were insufficient and put forward the view that technological change was the primary disturbing factor. In this regard, while admirers of Keynes's contribution, Lowe and his colleagues were also dissatisfied with the analysis in *The General Theory* due to the lack of any attention paid to income distribution and technological change. For Lowe, if labor-displacing technical change results in a shift in income distribution away from workers and toward capitalists, the lower marginal propensity to consume of capitalists may result in a kind of
under-consumption and so an important link between technological change and effective demand.

Lowe’s ‘Technological Unemployment Reexamined’ (1955) depicts the problem as an ongoing struggle between the forces of compensation and those of displacement, the outcome of which is impossible to predict on purely theoretical grounds. Over thirty years later, in *Has Freedom a Future?* (1988), Lowe continued to argue in a chapter entitled ‘The Specter of Technological Unemployment’ that an uncontrolled market cannot compensate for the displacement effects of new technologies. Lowe noted that ‘the issue was first introduced into respectable theory in the third edition of Ricardo’s Principles’:

In a newly added chapter, ‘On Machinery,’ the recognized head of liberal economics formally abandoned one of its basic tenets, namely that industrial progress is necessarily beneficial to all classes of society. Reluctantly, he had reached the conclusion ‘that the substitution of machinery for human labour is often injurious to the interests of the class of labourers’. (Lowe 1955, p. 232)

Ricardo’s conclusion that ‘[t]he opinion entertained by the laboring class, that the employment of machinery is frequently detrimental to their interests, is not founded on prejudice or error, but is conformable to the correct principles of political economy’ (1951 [1821], p. 392) was based on an analytical framework that has been called ‘an early and rude type of traverse analysis’ (Kurz 1984). For Lowe, Ricardo’s ‘capital shortage’ framework ‘threw out a fundamental challenge to the free enterprise system to assure full employment through the operation of spontaneous forces’ (Lowe 1955, p. 234). One can see, then, why Sraffa (1951, p. Ivi), in his ‘Introduction’ to *The Works and Correspondence of David Ricardo*, describes this chapter ‘On Machinery’ as constituting the ‘most revolutionary change in edition 3’.

While Sraffa concentrated on the classical theory of value and distribution and Lowe focused on the classical theory of growth, the beginning of the decline of the respective theories and the rise of marginalism is viewed as commencing with the work of John Stuart Mill. In the case of the theory of value and distribution, Sraffa (1951) demonstrated that, contrary to the thesis held by Jacob Hollander, Ricardo’s surplus approach was maintained from the *Essay on Profits* through the successive editions of the *Principles*. Closely following Sraffa’s lead, Bharadwaj has documented the ‘deviationist beginnings in Mill, paving the way toward the acceptance and proliferation of the supply and demand
approach' (1989, p. 136). Lowe (1987 [1954]) similarly located the decline of the classical theory of growth in Mill. The deterministic causal theories of Smith, Ricardo and Marx are replaced in Mill by theories in which 'everything affects everything else'. Lowe sees this as key to the transition to the neoclassical models.

Lowe's revival of the classical theory of capital accumulation and structural and technological change began in the twenties at Kiel University and spanned over fifty years, culminating in *The Path of Economic Growth* (1976). It has been viewed as opening the 'second stage in the systematic work of reconstruction of the Classical approach,' the 'first stage' being the work of Sraffa and his followers on value and distribution (Kurz 1984, p. 211; also Hagemann 1992, p. 236). Therefore, their differences in emphasis may be regarded as highly complementary. So far, the discussion of similarities and differences in the thought of Sraffa and Lowe has been on the content of classical theory. However, other important issues arise when we move from the substance of classical theory as a genuine alternative to orthodox marginalist theory to issues regarding the scope and method of economics.

2.4 The scope and method of economics

With regard to the scope and method of economics, the issues concerning the relation of the positions of Sraffa and Lowe become a little more complicated. Sraffa wrote little on these issues in his published work. Kurz and Salvadori (1998, p. 243) have put forward the position that 'Piero Sraffa was not a dissenter [from mainstream economics] in terms of either scope or method':

His dissent concerned the content of received theory. His contributions to the theory of value and distribution do not advocate widening the scope of analysis as it was defined by earlier authors, most notably Adam Smith and David Ricardo. Also, he does not question the adequacy of the method of analysis, developed by the classical authors and adopted by the marginalist ones, to deal with the problem of value and distribution. (1998, p. 243)

According to this viewpoint, Sraffa's distinction between the classical and marginalist approaches is in terms of theoretical content. Others have put forward the view that there are important differences in the scope and/or method of Sraffa's interpretation of classical economics and marginalism.
Bharadwaj (1989, p. 244), for example, has expressed the opinion that in Sraffa's interpretation it is 'the relatively more open character of the classical structure which renders it more flexible to deal with a wider range of historical changes.' Separating the theory of value and distribution as the 'core' of classical economics:

opens up the possibility of introducing a wide range of determinants and the real dynamics of the process of change; precisely because, thereby, the more complex historically specific, institutional, and social forces that govern changes (particularly in distribution, technology of production, and investment) can be introduced. (Bharadwaj 1989, p. 244)

According to this viewpoint, Sraffa considered there to be important differences in the scope of classical and marginalist economics, a view also expressed by other scholars, including Roncaglia (1978), Davis (1998a) and Dobb (1973, pp. 31–35). Davis (1998a, p. 135) writes that Sraffa's 'conception of economics was that of political economy, the framework of classical economics that made the economy part of a wider social-historical process'. In his view, Sraffa 'required that economic theory reference the social-historical context in which an economy being studied was thought to operate' (Davis 1998a, p. 144): 'economic behavior cannot be understood apart from other dimensions of social life...The economic process needs to be understood in the context of political, legal, cultural, and other social-historical phenomena' (Davis 1998a, p. 149).

Notice that no claim has yet been made regarding method. We can assume, for the moment, that the method of the classical and early neoclassical theories was the same (Garegnani 1983 [1976]; 1989 [1979]; 1983 [1979]). This position – that the method of the classical and early neoclassical theories was the same, but that the scope was not – was also accepted by Lowe. Lowe had become dissatisfied with work in economic dynamics in which 'the time-honored distinction between dependent and independent variables – that is, between an economic process and the underlying metaeconomic forces that drive it on and change it – is generally maintained' (Lowe 1987 [1954], p. 108). He did find an exception in the 'dynamic process analysis' of the period that went further in endogenizing some of the structural variables in their theories of growth, but found these attempts to be 'but a dim reflection' of what is found in the classical economists and Marx. It is in this regard that Lowe
highlighted a key difference between the classical and early neoclassical approaches to be in ‘the entire possible range of deductive reasoning’:

Let us be quite clear about the disputed region. It concerns the whole natural, social, and technical environment of the economic system ... and ... the changes in these elements through time. [For the classical economists and Marx] the explanation of the order and changes of these data formed part of the theoretical work of economists. (Lowe 1987 [1954], p. 109; emphasis added)

For Lowe, then, the classical economists applied their method over a much wider range than the neoclassical authors to include precisely those areas identified by Bharadwaj, Roncaglia and Davis as included by Sraffa in the scope of the classical approach, but outside the scope of neoclassical economics: the social-historical context of economic processes. For Lowe a revived classical approach would aim to once again ‘extend the range [of analysis] ... to the sphere of the natural and social data of the market process, and thus to facilitate an estimate of the direction and limits of possible dynamic changes of the system as a whole’ (1935, p. 67).

Sraffa distinguished between the classical and marginalist theories of value and distribution and Lowe did the same with respect to the respective theories of economic growth. In addition, there is reason to support the view that both Sraffa and Lowe also distinguished between the scope of economic theory in the classical and neoclassical approaches. In this view, the classical approach considers areas thought to be outside the scope of economics in the neoclassical view – areas falling broadly under the heading of the social-historical context of economic processes – as legitimate targets of analysis. These areas are also to be included in a revived classical approach to analyzing the contemporary political economy. However, the question remains as to the views of Sraffa and Lowe on the method of classical economics.

We have seen that some of Sraffa’s followers (for example, Kurz and Salvadori, Garegnani) take the position that Sraffa considered the method of the classical and (early) neoclassical economists to be the same, and that Sraffa was not a critic of the neoclassical method. Others have interpreted Sraffa’s position as implying a critique not only of the scope but of the method of the marginalists as well. Davis has argued that, in his criticism of Marshall, ‘Sraffa clearly rejected what has since come to be known as the deductivist mode of explanation’ (1998b, p. 488). Based on his interpretation of Sraffa’s early philosophical thinking as
influenced by historical materialism, Davis puts forward the view that Sraffa 'rejected a deductivist conception of science that failed to respect how ideas reflect concrete historical circumstances' (1998b, p. 488), but with the rider that this 'critique of the deductivist mode of explanation is arguably an early career project' (1998b, p. 489).

Davis's interpretation raises a number of interesting issues with regard to Lowe. First, Lowe was a life-long opponent of the idea that there are any universal economic laws (Lowe 1935; 1977 [1965]; also see Forstater 1994; 1998; 1999; 2000). Hence, if we are to accept Davis's interpretation, Lowe and Sraffa shared the belief that economic theory is context dependent and historically conditioned. Second, because, as described above, the 'explanation of the order and changes' of the 'whole natural, social, and technical environment ... formed part of the theoretical work' of the classical approach, Lowe considered not only Marx, but the classical approach generally to display something of an historical materialist approach: 'Even in its loose classical form the idea of a mutual relationship between the economic and social process has some savour of a materialist interpretation of history' (Lowe 1935, p. 104). Furthermore, Lowe thought that this aspect of the classics was an extremely important part of a revived classical approach to the analysis of modern industrial economic and social systems:

Having at once realized the decisive influence technique of production exerts on modern economic dynamics, we immediately see historical materialism in a new light. It may be doubted whether it can be used as an open sesame for the whole history of mankind. But applied to the analysis of the industrial system it proves an informative working principle. It points to the strange process of self-generation in modern economic evolution which determines the institutional and psychological data of any constellation in the market by the previous results of the preceding constellation. (Lowe 1935, p. 111)

Third, while Lowe took the position that the deductive method was the method of the classical and neoclassical approaches (though, as seen above, in the classical approach, the range of deductive reasoning was much wider), he also maintained that economic method and not only economic theory is historically dependent. Thus, while Lowe was a critic of the deductive method, especially later in his life, he held that the conditions for the appropriate application of deductive reasoning were in fact in place during the period of classical economics (Forstater 1994; 1999). But with the historical structural-technological transformations
of capitalism and associated feedback effects resulting in environmental, institutional, behavioral and socio-psychological changes, these conditions no longer hold under modern capitalism (Lowe 1977 [1965]; also Forstater 1994; 1998; 1999). From around the mid-1950s onward, Lowe began arguing that what he called ‘instrumental analysis’ is the appropriate methodology for economic theory and public policy.

Clearly, Lowe was a critic of the long-period method, though his differences stem from the fact that he was not concerned with the ‘core’ of value and distribution theory, but rather with the classical theory of accumulation and structural and technological change. For Lowe (1935, p. 97), ‘in the industrial system the economic process itself produces and changes its data.’ The neoclassical approach of taking the ‘whole natural, social, and technical environment’ as given ‘cannot be reconciled with the experience that the economic circular flow transforms its social environment’ (Lowe 1935, pp. 105–06):

Any realistic theory of the modern economic system must start from the general premise that it can no longer deal with a constant structure and with homogeneous processes, but that the economic order under consideration is subject to an evolutionary transformation. Therefore, any deductive operation with invariable data is defective from the very outset. Long-period analysis cannot dispense with a previous examination of the tendencies of the data themselves, that is to say, the corresponding sociological constellation and its regular changes, and moreover of the mutual relations of the variations on both sides. Above this dynamic chain of reciprocal causation between the economic process and its social environment calls for a theoretical system of co-ordinates which is on the one hand determinate enough to define the course of individual movements, and on the other hand elastic enough to reproduce the system as a whole. We need not expressly decide henceforth to insert sociological elements into our economic deductions – there was never any substantial statement which was not based on such premises. But we are to render manifest and open to continuous examination and revision those implications which formerly remained latent, and whose modifications were usually neglected. (1935, pp. 138–39)

For Lowe, data can be treated as given only for short-period analysis: ‘If long-period movements and final constellations are to be examined, the autonomous tendencies of the several data and their contact with the process under consideration are to be investigated in coincidence
and in constant confrontation with the special deduction' (Lowe 1935, p. 136):

It is the fundamental theorem of realistic theory that under the particular social conditions of the industrial system, data and process are involved in a regular and continuous interaction which makes any concrete constellation, and therefore the system as a whole, essentially unstable and liable to transformation. For this reason in any long-period analysis concerning the industrial system, on principle the data are to be handled as 'dependent variables'. (Lowe 1935, pp. 146–47)

What are we to conclude, then, when considering the contributions of Sraffa and Lowe, and the revival of Classical Political Economy, with regards to issues of scope and method? If we accept the Davis–Bharadwaj–Roncaglia interpretation of Sraffa on the scope of classical economics, then clearly Lowe's position is not only consistent with Sraffa, but because he wrote considerably more on the issue, his work may be of importance in developing this aspect of the classical revival.

On the issue of method, Lowe's position is that the classical method was the deductive method, which seems to be the Kurz–Salvadori–Garegnani position as well. The difference is that Lowe concludes that while that method was appropriate for the classical period of analysis, it may no longer be so under contemporary conditions. The Davis interpretation, by rejecting the deductive method, may therefore be more helpful in establishing a revived classical method that is more appropriate for contemporary circumstances, even though it is questionable whether it accurately describes the actual method employed by the classics, and it may also not be consistent with the long-period interpretation of Sraffa. One way out is to abandon the long-period method. Sraffa's work has been utilized in frameworks outside of the long-period approach (see, for example, Pasinetti 1981; 1993).

Little has been said with regard to Lowe's instrumentalism, his alternative methodology for economic theory and public policy elaborated from the mid-fifties through the end of his life. In the instrumental method, we begin with a vision of the desired end-state, a vector of macroeconomic (and other) goals and then work backward to discover the social, structural and technical paths capable of achieving those ends, the behaviors capable of setting the system on such a path, the motivations capable of eliciting those behaviors, the contexts capable of inducing those motivations and the policies capable of creating or
shaping those contexts (Forstater 1999). It is essentially an alternative methodology for planning other than rational or optimal planning methods. The affinities of Production of Commodities by Means of Commodities with Leontief's input-output framework provide direction as to how Sraffa's work may indeed contribute to economic planning (see Forstater 1994, p. 33; Dymski 2004).

Another possible methodological reconciliation is to approach the issue from the standpoint of methodological pluralism (Caldwell 1982) and, appropriately, takes us back to Kregel's views put forward in The Reconstruction of Political Economy (1973). There, Kregel emphasized the distinction between an economic system 'at a specific point in time' and an economy undergoing 'changes occurring through the passage of time' (1973, p. 119 and passim). Sraffa's analysis of value has often been characterized as a 'snapshot' or 'photograph' of an economic system at a moment in time (for example, Roncaglia 1978). Lowe's concerns with growth and structural and technological change are ones associated with movements over time. Others have made this distinction with reference to the classical economists, notably Heinz Kurz (2003: 170). The long-period method has been utilized by authors such as Kurz and Garegnani, not only for the analysis of value, but for effective demand, technological change and other factors 'outside' the 'core'. The proposition being made here is to investigate the potential fruitfulness of using one method for the analysis of the 'core' of value, of the economic system at a particular moment in time and another method for analyzing phenomena changing over time, such as growth and structural and technological change.

2.5 Conclusion

Piero Sraffa is well-recognized for and rightly credited with the revival of Classical Political Economy as a distinct paradigm from neoclassical marginalism. Less well known is Adolph Lowe's arguments along similar lines. Although they focused on different areas of economics – Sraffa on value and distribution, Lowe on growth and technical change – the two authors share some common and complementary views and their work has some similar themes. Of particular note is their independent rediscovery of the circular nature of production in the classical approach in the 1920s.

As shown above, things become a bit more complicated once we move from the content to the scope and method of the classics. There is some disagreement among scholars concerning the degree to which Sraffa
dissented from standard economics when it came to issues of scope and method. It is possible that the publication of Sraffa's unpublished manuscripts may shed light on these topics. An important motivation of this chapter is to introduce Lowe's work and ideas to a wider audience, and that this might result in constructive discussion and debate on these matters.

Jan Kregel has made enormous contributions to economics and continues to do so today. His work in economic theory, history and policy constitutes some of the most innovative and important work in political economy in the late 20th and early 21st centuries. Kregel's ideas will be part of any full and coherent alternative to mainstream economics – the reconstruction of political economy, the generalization of The General Theory.

Note

It is with sincere humility and appreciation that I offer this contribution in honor of Jan Kregel. I am grateful to call myself his student and proud to call him my friend.

References


