Reply to Hollander

In reply to my article, "Professor Hollander and Ricardian Economics," Hollander agrees with me:

1. that diminishing returns is the key to Ricardo's model of the behavior of secular shares;

and

2. that the secular behavior of corn prices is an important determinant of the real wage in Ricardo's theory of distribution.

However, Hollander denies:

3. that Ricardo's only major contribution to economics was the secular growth model represented by the Corn Model;

and

4. that only the behavior of corn prices affects the nominal wage of labor.

Proposition 3 is incorrect because much of Ricardo's writing is concerned with the shifting and incidence of taxes in an economy without population growth. Proposition 4 is false because the wage earner consumes other things besides corn, and so both his real and nominal wages are affected by prices other than the price of corn. Inasmuch as I agree with Hollander that propositions 3 and 4 are false for precisely the reasons Hollander offers, what then remains of the Moss-Hollander controversy?

Apparently, Hollander believes that, because I support the "consensus view"—that the major essential novel ingredient in Ricardo's theoretical system is the agricultural theory of profit—I must also support propositions 3 and 4 above. But the fact is I have not the slightest difficulty subscribing to the "consensus view" and simultaneously accepting what Hollander has to say about the other parts of Ricardo's contribution. Hollander's achievement consisted of distilling the modus operandi of Ricardo's theoretical system in terms of the role relative market prices play in encouraging alternative patterns of resource allocation. We need to know about the modus operandi of Ricardian economics in order to understand what goes on in between those positions of equilibrium that figure so prominently in Ricardo's policy discussions. When presenting Ricardo's theory of secular growth by means of, say, the Corn Model, Hollander's detailed investigations provide an understanding of how the economy moves from one (comparative) static position to the next. Thus, I claim that Hollander has provided us with an interpretation of Ricardo that is strikingly compatible with the consensus view.

Hollander does not see things quite the way I do. In his view, the Corn Model is not a convenient heuristic device for discussing Ricardo's theory of secular growth but a distorting lens through which historians like

"By 'agricultural theory of profit,' I mean the view that the ratio of return earned on capital invested in agriculture strongly influences the return on capital invested outside agriculture. Agricultural 'rules and norms' as I have stated in my article, "Professor Hollander and Ricardian Economics," Eastern Economic Journal, 5(December 1979):503.
me have only probed at Ricardian economics rather than fully understood it.

Hollander considers the inverse profit-wage theorem the fundamental unifying theme throughout Ricardo's entire oeuvre and the essential theoretical innovation over Adam Smith's economics. Whatever Ricardo's model of economic growth is, it cannot be the Corn Model. But surely the fact that the inverse profit-wage theorem can be deduced from the Corn Model under appropriate assumptions suggests that, whenever a more all-inclusive model of Ricardian economics is available to replace the Corn Model, the Corn Model will probably fall out of the more general model as a "special case." And so Hollander's antagonism toward the Corn Model as a representation of Ricardo's economics is surely misplaced. The Corn Model is not inappropriate but only incomplete.

On a related matter, I am delighted that Hollander accepts the distinction I presented in my article between the "tautological" and "market process" versions of the inverse profit-wage theorem. This distinction helps us clarify the two forms the theorem takes in both Ricardo's writings and those of Ricardo's contemporaries. I claim that those early nineteenth-century economists who adopted the inverse profit-wage theorem did not use it in as sophisticated a way as Ricardo used it. For most, the theorem meant little more than a statement about how to use certain words such as "proportional wages" or "proportional profits." With the possible exception of the two Mills, the theorem did not critically affect the economic thinking of the day. Ricardo's theorem even produced several antagonistic evaluations. Consider Nassau Senior's remark:

Since the publication of Mr. Ricardo's work it has been received as an axiom, among the dabblers in political economy, that according to the established doctrines of the science, high wages and high profits are incompatible; and therefore, that either the leading doctrines of political economy are false, or the interests of the labourer and capitalist are always directly opposed to one another. The former opinion has been adopted by the large class who do not attend to what they read; the latter by the still larger class who do not attend to what they see.

Senior's position was that wages and profits rise together because of the importance of manufactured goods in the workers' budget and strong tendency toward the accumulation of capital.

Mountford Longfield saw the inverse profit-wage theorem as implying that there might be strict limits on the natural growth of the economy and so produced, what I have argued elsewhere, to have been a genuinely non-Ricardian theory of distribution. Longfield intended his theory to discredit the "English" one that he identified with Ricardo's contribution. The version of the inverse profit-wage theorem that Longfield accepted and what lead Hollander to call Longfield a "Ricardian" was a watered-down version without implications about the manner in which actual markets operate.

For these reasons I consider Hollander's findings as supplementing and not supplanting the consensus view. The Corn Model is simply a heuristic device to explain certain features of Ricardo's economics especially his theory of secular growth and the tendency toward the stationary state. Neither myself nor any other adherent of the "consensus view" would state that this is all there is to Ricardo or that the secular growth model is the only important part of Ricardo's contribution. On the other hand, I am certainly not prepared to agree with Hollander that the tendencies toward the stationary state as summarized by the Corn Model were a minor incidental part of Ricardo's policy analysis. Certainly, that is not how Ricardo's thought was interpreted by other economists in the nineteenth century.

Nassau Senior, Three Lectures on the Rate of Wages (London: John Murray, 1811), p. 4; Reprinted A. Kelley, 1927.

Mountford Longfield, Ireland's First Professor of Political Economy (Ottawa, Ill.: Green Hill, 1976).