

A History of Economic Theory

Essays in honour of Takashi Negishi

Edited by

Aiko Ikeo and **Heinz D. Kurz**



Routledge Studies in the History of Economics

A History of Economic Theory

Takashi Negishi is a well-known economic theorist and historian of economic thought who rose to prominence during the early 1960s with his work on the Walrasian general equilibrium system. Negishi is known for his attempt to extend the (Neo-)Walrasian multimarket system in several directions to incorporate concerns, such as the existence of competitive equilibrium and Pareto efficiency, stability, imperfect competition, trade, money and unemployment – and, as a consequence, helping to discover and delineate the limits of conventional theory.

Negishi uses powerful mathematical tools as well as the observations and analytical experiments given by early economists in his own economic research. In turn, his research results are not only used in further theoretical analyses and applied general equilibrium analysis but also interpreted and reconstructed to some degree to produce new research. This collection in honour of Takeshi Negishi analyses his contributions to the history of economic theory. A wide variety of subjects are covered, including Pareto optimality and the Negishi Method in welfare economics, a non-Walrasian approach to disequilibrium analysis, Ricardo's treatment of exhaustible resources and trade theory, Sraffa's development in the theory of differential rent, the Marxian theory of exploitation and Keynes's monetary economics.

This book will be useful to students and researchers of the history of economic thought and of economic theory, and to anyone interested in Negishi's contributions to economic analysis.

Aiko Ikeo is currently Professor of Economics at Waseda University, Japan.

Heinz D. Kurz is Professor of Economics and Director of the Graz Schumpeter Centre at the University of Graz, Austria.

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First published 2009
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon, OX14 4RN

Simultaneously published in the USA and Canada
by Routledge
270 Madison Avenue, New York, NY 10016

*Routledge is an imprint of the Taylor & Francis Group,
an informa business*

This edition published in the Taylor & Francis e-Library, 2009.

To purchase your own copy of this or any of Taylor & Francis or Routledge's
collection of thousands of eBooks please go to www.eBookstore.tandf.co.uk.

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from the publishers.

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

Library of Congress Cataloging in Publication Data

A history of economic theory : essays in honour of Takashi Negishi/
edited by Aiko Ikeo and Heinz D. Kurz.

p. cm.

Includes bibliographical references and index.

ISBN 978-0-415-43304-4 (hb) – ISBN 978-0-203-88007-4 (eb)

1. Economics–History. 2. Economics–Philosophy. 3. Equilibrium
(Economics) I. Negishi, Takashi, 1933- II. Ikeo, Aiko, 1956-
III. Kurz, Heinz-Dieter.

HB75.H5447 2009

330.09–dc22

ISBN 0-203-88007-2 Master e-book ISBN

ISBN13: 978-0-415-43304-4 (hbk)

ISBN13: 978-0-203-88007-4 (ebk)

ISBN10: 0-415-43304-5 (hbk)

ISBN10: 0-203-88007-2 (ebk)

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Contributors

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He published many papers in economic theory in academic journals such as the *Journal of Economics*, *Journal of Macroeconomics*, *Journal of Economic Behavior and Organization*, and *Structural Change and Economic Dynamics*. Some of his papers are joint works with P. Flaschel, W. Semmler, R. Franke, C. Chiarella, and others. Although his main contribution to economics is the mathematical study of Keynesian macrodynamic economics, he also has an interest in classical economic theory in the tradition of Ricardo, Marx, and Sraffa, which is one of the themes of Professor Negishi's research program. He is also a member of the Japanese Society for the History of Economic Thought, which is Professor Negishi's home ground.

Toshiaki Hirai is Professor of Economics at Sophia University, Japan. He studied theoretical economics at Professor Negishi's undergraduate seminar course at the University of Tokyo, then at the Graduate School of Economics of the University of Tokyo. He learnt the history of economic thought through participation in the seminar on the History of Political Economy (Japan), in which Professor Negishi was a central scholar together with the late Professor Tadashi Hayasaka (University of Tokyo). He edited, together with Professor Asahi Noguchi, *Keizaigaku ni okeru Seitou to Itan* (Orthodoxy and Heresy in Economics) in 1995, which was a Festschrift in honor of Professor Negishi on the occasion of his sixtieth birthday.

He was the editor-in-chief of the *History of Economic Thought* (the journal of the Japanese Society for the History of Economic Thought) from 1998–2001, and is a member of the Council of the European Society for the History of Economic Thought. He has published several books, including *Keynes's Theoretical Development* (Routledge), and various articles in several journals, including the *History of Economic Ideas*, *European Journal of the History of Economic Thought*, and *Journal of the History of Economic Thought*.

Aiko Ikeo is Professor of Comparative Economic Thought and Contemporary Social Sciences at Waseda University, Tokyo. She studied economic theory and the history of economics in the Graduate School of Economics at Hitotsubashi University. After being appointed Assistant Professor at Kokugakuin University, Professor Negishi allowed her to join his course on the history of economics at the University of Tokyo around 1996. While she was working at Duke University, US, from September 1988 to March 1989 on a special study of the history of economics since the twentieth century, she became interested in Japanese contributions to contemporary economics. Returning to Tokyo, she began to interview major Japanese economists such as Professors Negishi, Michio Morishima (in London), Takuma Yasui, and Hukukane Nikaido.

At the 2004 meeting of the History of Economics Society in Toronto, Ikeo co-organized with Ezra Davar and Toshiaki Hirai the session in honor of Professor Takashi Negishi. It was the starting point of this Festschrift project. She edited *Japanese Economics and Economists since 1945* (Routledge, 2000) and *Economic Development of Twentieth Century East Asia* (Routledge, 1997). She published *Economics in Japan: The Internationalization of Economics in the Twentieth Century* (in Japanese, Nagoya University Press, 2006) and *The Network of Economists in the Twentieth Century* (in Japanese, Yuhikaku, 1994). She was the editor-in-chief for *Waseda Business Review* from 2004–06.

Masahiro Kawamata is Professor of Economics at Hosei University, Tokyo, Japan. He studied economic theory and the history of economics at the Graduate School of Economics at Keio University. He also studied the history of Italian economic thought at the University of Milan. He has published several articles on the theory of UTILITY and scarcity by F. Galiani, A.R.J. Turgot, and E.B. de Condillac in the light of the Negishi Method. He has also published articles suggesting an alternative interpretation of Professor Negishi's discussion of Wieser's theory of natural value. These articles are summarized in his contribution to this volume.

He contributed to *Japanese Economics and Economists since 1945*, edited by A. Ikeo (Routledge, 2000). His recent papers are 'The rise and fall of ordinalism in the history of 20th century economics' (in Japanese, *The History of Economic Thought*, 2005), and 'Pareto's manual and the development of 20th century microeconomics' (in Japanese, 2007). He is also a Japanese translator of *An Essay on the Coordination of the Laws of Distribution of Wicksteed*. He is now

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Heinz D. Kurz is Full Professor of Economics at the University of Graz, Austria. He is a Managing Editor of *Metroeconomica* and of the *European Journal of the History of Economic Thought (EJHET)*. He has published several books, including (together with Neri Salvadori) *Theory of Production* (CUP, 1995; a Russian edition was published in 2004; a Chinese edition is currently in preparation); and many articles in various journals, including *Cambridge Journal of Economics*, *Economica*, *History of Political Economy*, *Journal of Economic Behavior and Organization*, *Journal of Political Economy*, and *Oxford Economic Papers*.

Professor Negishi invited Professor Kurz to organize with him the history of economics thought sessions on the occasion of the 1995 conference of the International Economic Association in Tunis, Tunisia. Professor Negishi serves on the editorial boards of both *Metroeconomica* and *EJHET*. He contributed papers to the first issue of *EJHET* in 1993 and to a symposium on Piero Sraffa's contributions to economics in 1998.

Laurence S. Moss[†], serving as a full professor, teaches economics at Babson College, Wellesley, Massachusetts. In addition, he is editor-in-chief of the *American Journal of Economics and Sociology*. Moss started his career as an historian of economic thought, however, finding few jobs in this field, he expanded his specialties to include science and the history of science. Over the last several decades, Moss has written about the Dublin School of economics that anticipated so much of the marginal revolution still to come. More recently, Moss has done work on the Austrian school thinkers in relation to Schumpeter. Two of his most recent books include (edited along with David Koepsell) *John Searle's Ideas about Social Reality* (Blackwell, USA, 2003) and Laurence S. Moss, (ed.), *Natural Resources, Taxation and Regulation: Unusual Perspectives on a Classic Topic* (Blackwell, USA, 2006).

Satoko Nakano is Professor of the History of Economic Theory and Comparative History of Economic Thought at Meiji Gakuin University, Tokyo. She studied economic theory and the history of economics at the Graduate School of Economics at Keio University. Through Professor Negishi's lectures to graduate students of Keio, she was influenced by his works on the history of economics from the perspective of modern theory. One of her research areas is on Jevons and his market theory of the 'Catallactics' tradition, namely, the exchange theory with localized interactions. She has published several papers in this area. She obtained her PhD in economics from Keio University in 1998, based on her thesis on 'Mandeville's Mechanism of the Division of Labor'. She is also working on the intellectual history of the interdisciplinary field between philosophy, moral philosophy, and economic thought, investigating the history

[†] Deceased

of economic thought in eighteenth-century Britain, focusing attention on such authors as Mandeville, Hume, and Smith.

She has several times participated in annual meetings of the History of Economics Society and has actively published papers in Japanese, such as ‘Mandeville’s connection with British Empiricists as is seen in his treatment of the Molyneux Problem’ (2002); ‘Berkeley’s criticism in *Alciphron* of esoteric positions of freethinkers: A hidden point of Mandeville’s argument’ (2002); and ‘The role of probable knowledge and luxury in the economy: The comparison between Mandeville’s skeptical approach and Hume’s naturalistic approach’ (2004).

Asahi Noguchi is Professor of the School of Economics at Senshu University in Kawasaki, Japan. He studied international economics, especially the history of international trade theories, at the Graduate School of Economics, University of Tokyo. There he attended a course on the history of economics conducted by Professor Negishi, from whom he learned a great deal. His research topics cover a variety of areas related to international economics, history of economic theory, and economic policy. He has written numerous Japanese books and published articles both in Japanese and English on these topics. He also co-edited a book with Professor Toshiaki Hirai, titled in English as *Orthodoxy and Heresy in Economics: From Classics to Moderns* (in Japanese, Showado, 1995), which is a collection of papers planned as a tribute to Professor Negishi’s scholarly achievements in the field of history of economic theory.

Neri Salvadori is Full Professor of Economics at the University of Pisa, Italy. He is managing editor of *Metroeconomica* and an editor of the *European Journal of the History of Economic Thought (EJHET)*. He has published several books, including (together with Heinz D. Kurz) *Theory of Production* (CUP, 1995; a Russian edition was published in 2004; a Chinese edition is currently in preparation), and many articles in various journals, including *Cambridge Journal of Economics*, *Economic Theory*, *History of Political Economy*, *International Economic Review*, *Journal of Economic Behavior and Organization*, *Journal of Political Economy*, and *Manchester School*.

Joaquim Silvestre is Professor of Economics at the University of California, Davis, specializing in microeconomics. He earned his undergraduate degree at the University of Barcelona, and his PhD at the University of Minnesota (1973). He taught for several years at the Universitat Autònoma de Barcelona before moving to California. He was elected fellow of the Econometric Society in 1991.

His doctoral research in Minnesota, under the supervision of Professor John S. Chipman, was inspired by Professor Negishi’s 1961 paper ‘Monopolistic competition and general equilibrium’, and benefited from discussions with Professor Huhukane Nikaïdo. Both Professor Negishi and Professor Nikaïdo had been visiting Minneapolis during those years. A substantial portion of Joaquim Silvestre’s work in the 1970s and 1980s covered Negishian themes,

such as the use of general equilibrium models with market power in providing microeconomic foundations in microeconomics.

Joaquim Silvestre has visited Japan repeated times, often as guest of Professor Kunio Kawamata of Keio University and Professor Kotaro Suzumura of Hitotsubashi University.

Preface

Professor Takashi Negishi is one of the best-known economic theorists armed with the method of mathematical programming, as well as being a renowned historian of economic thought of our time. He has published a large number of papers in leading journals dealing with all important schools of economic thought and their major representatives. His contributions on the classical economists and Marx, the neoclassical and general equilibrium theorists, and the Austrian economists broke new ground and enriched our understanding of alternative approaches to economic theory. There are only a few economists around possessed with a breadth and depth of knowledge in economics and its history to compare with his.

Professor Negishi has been making it his active engagement to establish the history of economic thought as an indispensable subject in the discipline. While a growing number of economists seem to believe that the discipline could well do without the history of economic thought, Professor Negishi has never left any doubt about the fact that to do so would in time involve parochialism.

Professor Negishi's study of the history of economics has encouraged his colleagues, students, and friends, as well as a much larger community, to see that a wide and liberal historical study of economics can enrich the discipline.

In June 2004, Aiko Ikee, one of the editors of this volume, Ezra Davar, and Toshiaki Hirai organized a session in honor of Professor Takashi Negishi at the annual meeting of the History of Economics Society (HES) to celebrate his seventieth birthday. The papers presented were as follows:

- Aiko Ikee 'Negishi and the History of Economics'
- E. Roy Weintraub 'Negishi's Stability Survey: Some Reflections'
- Ezra Davar 'Keynes and General Equilibrium Theory'
- Toshiaki Hirai 'Negishi and Keynesian Economics'
- Masahiro Kawamata 'Concepts of Value and Price in the History of Marginal Utility Theory'
- Laurence S. Moss 'Negishi and the Modern Austrian School'
- Asahi Noguchi 'Alternative Views on Ricardian Trade Theory'.

Evelyn Forget and Yasunori Fukagai added their tributes to Professor Negishi by discussing the papers presented in the session. Ikee and Heinz D. Kurz, who

unfortunately could not attend the session, decided to put forward the idea of publishing a volume on the basis of the presentations.

In June 2005, Professor Negishi was elected HES Distinguished Fellow for 2005. This was motivated by the HES past president, Roy Weintraub, in the following way:

Takashi Negishi has played a vital role in bridging the modern divide between economists and historians of economics. He has created a path for non-historians of economics, especially economic theorists, to enter a study of the history of economics, particularly on the topics of classical economics, Marxian economics, neoclassical economics, and Keynesian economics.

Professor Negishi replied as follows:

It is my great honor and pleasure to be nominated as a Distinguished Fellow. ... It all started from an old tradition in the University of Tokyo, where I spent most of my academic life, when one of the senior professors has to give lectures both on economic theory and history of economic thought. Outside the university, however, division of labor between theory and history progressed even in Japan. I feel like a bat in Aesop's Fables' animal–bird war. Therefore, I am particularly happy that HES warmly accepted my activities with this award. Thank you.

This volume consists of chapters by economists who admire Professor Negishi's achievements. Special thanks are due to the scholars (some of them remain anonymous) who served as referees of the chapters in this volume. Without their consistent encouragement and support we could not have accomplished our mission, namely promotion of the study of economics of the past and the history of economics, in order to take further steps forward for its future.

Aiko Ikee & Heinz D. Kurz

1 Introduction

Aiko Ikeo and Heinz D. Kurz

Negishi on the history of economic thought

Takashi Negishi's main fields of research are economic theory and the history of economic thought. He has always insisted that economists cannot do without the history of the subject and has impressively documented the fecundity of blending an interest in theory and the history of doctrines. Negishi's sense of the dependence of modern economic thought on the contributions of past authors, his proven opposition to 'provincialism in time', as Lionel Robbins dubbed the attitude of some contemporaries to ignore the breadth and depth of wisdom contained in the treasure trove which is the history of economic thought, is well epitomized in the following passage taken from a paper in which he compared the theories of production and distribution of Karl Marx and Eugen von Böhm-Bawerk:

In the Chino–Japanese system of zodiacal symbols, to count years, each year is given the name of an animal, for example, a tiger for 1818, a boar for 1851, and a rooster for 1933. This address is, therefore, to express a prowling rooster's view of how a big tiger roared and how a wild boar dashed, since it is believed that one took on the character of the animal of one's birth year.

(Negishi 1986: 10, about Marx, Böhm-Bawerk and himself)

The years given are, of course, the birth years of Marx, Böhm-Bawerk and Negishi himself. Marx and Böhm-Bawerk were themselves both major theorists and historians of economic thought. Marx's *Theorien über den Mehrwert* were designed to form part IV of his magnum opus, *Das Kapital*, as Böhm-Bawerk's *Geschichte and Kritik der Kapitalzinstheorien* was designed to premise his *Positive Theorie des Kapitals*.

Obviously, the history of economic thought would not be a very appealing subject if economics was a 'normal science' in the sense that the process of the production and absorption of knowledge is perfect: whatever is good and valuable will be retained, whereas whatever is weak and erroneous will be weeded out. If this was to be true, it would suffice to read only the most recent works in economics. There could only be an antiquarian interest in the past; why bother about 'the wrong

opinions of dead men', to use Arthur Cecil Pigou's famous phrase? The point of view under discussion is reminiscent of a famous remark allegedly made on the occasion of a fire destroying the library of Alexandria: 'This is no loss, because the books burnt contained either what is in the Koran or what is not in it.' Economics is not possessed of the equivalent of a Koran. Its students should therefore not only be allowed to read several books, but be strongly encouraged to do so.

This is forcefully argued by Negishi in several of his contributions. In addition, he exemplifies the fruitfulness of engaging in studies of major authors in terms of the inspirations he derived from them and which led him to sharpen certain arguments by formalizing them and looking upon known problems from new, that is, old, perspectives. It is beyond the scope of this short introduction to provide a detailed account of Negishi's numerous contributions to the history of economic thought. We rather discuss briefly some of his arguments in favour of studying the field, even if, or rather precisely when, a person's main concern is with carrying forward economic theory.

A first reason given by Negishi may come as a surprise to many economists. In a paper entitled 'Unnoticed predecessors of the early Negishi theorems,' published in a special issue of the *International Journal of Economic Theory* on 'Social Welfare, Market Equilibrium and Stability' in his honour, he writes:

In the early 1990s, I shifted gear, and my interest turned to the history of economic theory. I was surprised to find that theorems I proved were in some sense already anticipated in classical economics of the marginal revolution.
Truly, there is nothing new under the sun!

(Negishi 2008: 167; emphasis added)

In the paper he traces the ideas underlying several of his mathematical findings back to Adam Smith, Johann Heinrich von Thünen and William Thomas Thornton. The epigraph he quotes from the *Bible* might thus be taken to imply turning the above message upside down as regards the destruction of a world renowned library: What is worth knowing in economics is not to be found in a single book or a selection of books, published recently, but in the economics literature at large as it has accumulated since the inception of systematic economic analysis at the time of the early 'classical' authors.

Dealing with the doctrines of earlier authors is to Negishi therefore not an 'innocuous respite from pushing back the frontiers of economic knowledge', to use Donald Winch's phrase (Winch 1962: 193). It is rather an integral and indispensable part of this latter activity. Alas, Negishi observes,

with an ever-growing emphasis on formal techniques in mainstream economics ... many economic theorists are not any more likely to develop their interest in the history of their science than are the natural scientists. This is very unfortunate.

He adds:

To develop our science in the right direction, I believe more theoretical resources should go into the study of the history of economics from the point of view of the current theory.

(Negishi 1992: 228)

However, when economists are less and less prompt to take on both tasks—that of developing economic theory and that of studying its history against the background of current theory—as was the case with regard to almost all major economists up until recently, who can then be expected to look after the history of the subject? The answer is obvious: It will have to be done by professional historians of economic thought or it will not be done at all. The main, if not exclusive, business of historians of economics will then be to keep the ideas of important defunct economists alive. The history of economic thought thus becomes a branch of a discipline that is organized in terms of an ever more sophisticated division of labour.

However, as authors such as Adam Smith stressed, while the division of labour may greatly enhance productivity, this comes at a cost which consists first and foremost in a fragmentization of knowledge. In the extreme, each single unit is much more productive with regard to a set of narrow tasks than otherwise, but knows nothing about what is going on in the other units. Not knowing or not understanding what other people in the profession are doing is an impediment to fruitful communication. The result is frequently that people coming from different research fields are at cross-purposes. When the costs of entry into another field are getting too high, a lack of understanding may give way to benign neglect and eventually even to disdain for what the others do. From a lack of respect for other people's work it is only a short way to attempts to marginalize what they are doing by suppressing the subject they have chosen in scholarly publications and in the curricula of universities.

This description fits fairly well the current state of affairs as regards the relationship between many economists and especially theorists on the one hand and many historians of economics on the other. Economic journals with a long-standing reputation for their important contributions to the history of economic thought have been largely 'purged' of the subject and the same holds true with regard to the curricula of studies in economics.

Today, historians of economic thought are frequently looked down on by economists.

This is very unfortunate, as Negishi stresses, and the reasons are obvious. He is convinced that 'economists will always need historians of economics, even if in the near future the latter will no longer worry about the approval of the former. Economics cannot dispense with its history' (Negishi 1992: 227).

Why is this so? Why do economists need historians of economics even more than the latter need the former? In Negishi's view the current state of affairs is not only detrimental to historians, it is also detrimental to their current adversaries—those who believe that little or nothing can be learned from the history of the subject and

that the profession at large, and its students, should be prevented from wasting their time with it. According to advocates of the ‘Whig history of economics’ the development of the discipline is a relentless march from dark beginnings to an ever brighter future until eventually our understanding of economic phenomena will be improved so much that little or nothing is left that is unclear to us. The very success of the scientific discipline eventually renders the discipline superfluous. What then remains to be done is to codify the received knowledge, which for all practical purposes can be taken to be exhaustive, to transmit it to new generations, and to apply it to contemporary problems. The history of economics has reached its terminal state.

Negishi is not convinced by this. While he does not in the least dispute that there is progress in economics (see, for example, Negishi 1993, with regard to the theory of international trade), he disputes the presumption that the selection process of which we spoke in the above works smoothly. Accordingly the history of economics has an important task to fulfill. He expounds:

The history of our science should be used as a mirror in which the current theory reflects the knowledge of how it failed to succeed in the past. To learn from past theories does not impede the progress of our science. Progress often means, however, sacrificing something old. To make sure that we are going in the right direction, it is always necessary to see whether we have sacrificed something in error.

(Negishi 1992: 228)

Scrutiny shows that there are indeed important instances in which some things have been submerged and sacrificed in error. This is also the deeper reason why, in his view, ‘Historians do not need the approval of economists. It is the latter who should ask the approval of the former’ (Negishi 1992: 229).

It should therefore come as no surprise that Negishi advocates pluralism in economics. A leading representative of neoclassical theory, he sees ample room for other schools of thought. As he stresses, for example, with regard to Marxist economic theory, its existence reminds us

of the fact that neoclassical economics is not economics itself but a paradigm of economics and that its success in producing many interesting theorems is at least partly obtained by assuming away the historical, sociological, and political aspects of economic problems.

(Negishi 1995: 166)

This standpoint makes him approach non-neoclassical theory without the prejudice one often encounters in the profession, that the neoclassical paradigm is the only scientific one and that other paradigms are inferior or mistaken or less general, etc. Rather, Negishi is keen to learn from the contributions of other schools of economic thought and is eager to find out what they have to offer above and beyond mainstream economics. As a true scientist he exhibits a fair amount of curiosity.

In dealing with earlier, especially non-neoclassical authors he typically first tries to understand them against the background of received neoclassical theory by translating the concepts they use into the language of the neoclassical paradigm. If this translation does not work at all, or works only partially, he tries to identify the *differentia specifica* of an author or school's approach *vis-à-vis* the neoclassical one. For example, in the paper just referred to, Negishi discusses the claim put forward by several people that Marx added little or nothing useful to economics and that therefore his contribution deserves to fall into oblivion. Negishi disagrees and emphasizes instead:

While Marx certainly did not add anything to the classical heritage that is useful for neoclassical economics, one cannot, however, deny the possibility that he did add something to the classical heritage that is important to Marxian economics today.

(Negishi 1995: 168)

In the introduction to Volume II of his *Collected Essays* Negishi explains his way of approaching doctrines of the past. He stresses that the 'common feature of these essays is the study of the past theories and thoughts in the light of, and from the point of view of, modern economic theory.' (Negishi 1994: xi) With reference to Lakatos he envisages the history of our subject as a history of competing research programmes, or paradigms,¹ where some paradigm, such as the classical one, may be 'submerged and forgotten', to use Sraffa's words (Sraffa 1960: v), but then re-emerge again:

Even a currently hibernating research programme can make a triumphal return without changing its core, if some new auxiliary theories are added properly. But, to make such a return possible, however, there must always be some scientists who are seeking to develop it while it is in a state of hibernation. In other words, it is necessary to study theories that are regarded as past ones from the point of view of other research programmes.

(Negishi 1994: xi)

As a 'good example' of such a 'triumphal return' he mentions Sraffa's study of Ricardo, which is said to have given 'foundations of a neo-Ricardian research programme, one of the most active competitors of mainstream neoclassical study' (Negishi 1994: xi-xii).

Negishi's rich harvest in dealing with past theories and authors and confronting them with modern mainstream theory is well documented in the three volumes of his *Collected Essays*, especially Volumes II and III, and in some of his monographs. Here we cannot enter into a detailed discussion of his respective contributions. It suffices to mention some of the main themes that aroused his interest and prompted him to write papers or books:

- Adam Smith on economic growth and development;
- Thomas Robert Malthus on the concept of an optimal savings rate;