

## NOTES AND COMMENTS

*These two pieces bring to an end the exchange of views on this topic in the pages of the Cambridge Journal of Economics (Eds).*

### Interpreting Ricardo: a rejoinder to Peach

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This note answers Terry Peach's (1998) response to our criticisms of his interpretation of Ricardo. We show that the available evidence supports Sraffa's interpretation. The arguments put forward by Peach, far from undermining that interpretation or furthering an understanding of Ricardo's project, do little more than catalogue the already well-known difficulties that Ricardo encountered as he grappled toward a clearer account of the laws that regulate distribution and prices.

*Key words:* Ricardo, Sraffa, Classical political economy

*JEL classification:* B12

In a recent issue of this journal, Terry Peach (1998) has responded to our criticisms of his book *Interpreting Ricardo* (1993). He opens his reply with a repetition of the charge that those who endorse Sraffa's interpretation of Ricardo are motivated by some extra-scientific need to establish a classical pedigree for their own theoretical paradigm. We begin by noting that the validity of the theory contained in Sraffa's *Production of Commodities by Means of Commodities* (1960) does not in any way depend upon the soundness of his interpretation of Ricardo. It is clear that in his own theoretical work Sraffa drew inspiration from the classical economists, including the Physiocrats and Marx.<sup>1</sup> We might also surmise that, as Sraffa refined his theoretical views, his understanding of Ricardo and of classical political economy evolved and came into sharper focus. As Peach rightly remarks (1998, p. 615), there is nothing exceptional or sinister in this. The Ricardian character of Sraffa's theory has no bearing on that theory's coherence or usefulness, which must be evaluated according to the usual standards of rigour and relevance (see Kurz and Salvadori, 1995).

The main question under debate here is whether the universally acknowledged 'points of resemblance between [Sraffa's] work and Ricardo's' (Peach, 1998, p. 612) are best

Manuscript received 9 April 1999; final version received 27 July 2000.

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<sup>1</sup> See the Preface and Appendix D to *Production of Commodities*. In addition, Sraffa's unpublished papers provide insights into his work and the sources he used.

explained by Sraffa's interpretation. Ricardo's meaning was not always transparent, and reasonable people may therefore disagree over precisely what he had in mind. We contend that the available evidence points to Sraffa's interpretation as the most plausible reading. The arguments put forward by Peach in his book and in his reply to his critics, far from undermining that interpretation or furthering an understanding of Ricardo's project, do little more than catalogue—with imperfect accuracy—the inevitable, and already well-known, difficulties that Ricardo encountered as he grappled toward a clearer account of the laws that regulate distribution and normal prices.

Peach claims to have been wrongly criticised under three headings: Ricardo's early theory of profits; the labour theory of value and the invariable measure of value; and the connection between Ricardo and Sraffa. We take up these issues in turn.

### 1. Ricardo's early theory of the profit rate

Barring the discovery of new textual evidence, there is no way to establish definitively whether Ricardo ever gave explicit expression to a corn-ratio explanation of the profit rate. What appears to be beyond doubt, however, is that at some point during 1813 he began to distance himself from the competition of capitals theory of the profit rate, to which, following Smith and in agreement with Malthus, he had previously adhered. It is equally clear that he was moving toward a theory that explained the profit rate in material terms—that is, in terms of the real wages of labour and the technical conditions of production employed. The initial manifestation of this line of thinking was Ricardo's observation to Malthus, in a letter of August 1813, that improvements in agricultural methods might offset the depressive effects of capital accumulation on the profit rate (*Works*, VI, pp. 94–5). This observation was followed a few months later by the famous assertion that 'the profits of the farmer . . . regulate the profits of all other trades' (Ricardo to Trower, 8 March 1814; *Works*, VI, p. 104). The question arises how Ricardo came to this remarkable proposition.

Sraffa (1951) suggests the corn-ratio argument as a rational foundation for the proposition, in the sense that this reasoning explains Ricardo's statement in a straightforward way, and does not come into conflict with any of the textual evidence, which in fact supports the hypothesis. Peach's efforts, in his book, and now in his reply to his critics, to refute that hypothesis and promote an alternative reading are unpersuasive.

Against Mongiovi's observation that what Sraffa calls a 'striking passage'<sup>1</sup> signals a break with the competition of capitals theory, Peach (1998, p. 600) contends that in 1814 Ricardo was 'oblivious' of having made such a break. Peach's response to the obvious question that arises from this claim, and that has already been posed by De Vivo (1994, p. 37)—why then were Ricardo and Malthus arguing?—is to contradict himself: Malthus objected to Ricardo's denial of 'an independent causal influence on profitability from the "competition of capitals"' (1998, p. 604); in other words, Ricardo *had* broken with the competition of capitals theory.

In fact, Ricardo was fully aware that his view had changed. The very point of his letter to Trower of 8 March 1814 is to lay out the differences between his own position and that of Malthus on the determination of the profit rate. In that letter Ricardo stresses that '[n]othing . . . can increase the profits permanently on trade, with the same or an increased Capital, but a really cheaper mode of producing food', and he contrasts this proposition to Malthus's claim that the general rate of profits can be raised by 'the discovery of a

<sup>1</sup> 'The rate of profits . . . must depend on the proportion of production to the consumption necessary to such production' (*Works*, VI, p. 108).

new market where there will be a great demand for our manufactures . . . ' (*Works*, VI, pp.104–5). The content of this letter is plainly incompatible with Peach's assertion that Ricardo was 'at this time oblivious' of having broken with the competition of capitals theory.<sup>1</sup>

Equally unpersuasive is Peach's assertion (1998, pp. 600–1) that the striking passage comes into conflict with the competition of capitals theory only on the question-begging supposition that the corn-ratio interpretation is correct. The competition of capitals theory implies that an expansion of markets can prevent the profit rate from falling with the accumulation of capital, regardless of what happens to the technical conditions of production in agriculture, i.e., that the profit rate depends not on 'the proportion of production to the consumption necessary to such production', but entirely on the scarcity of capital relative to the scope for employing it. One need not interpret the striking passage in corn-ratio terms to see that it is incompatible with Malthus's theory of profits; one need only recognise that the passage reflects Ricardo's view that the profit rate depends upon the technical conditions of production in agriculture—that is, one need only read what it says. Peach asserts that the striking passage can be viewed as incompatible with the competition of capitals theory only if the corn-ratio interpretation is presumed to be correct. But he has got the argument exactly backwards: it is the transparent incompatibility of the passage with the competition of capitals theory that gives support to the corn-ratio interpretation.

Peach confuses matters further when he responds to Mongiovi's criticisms of his handling of the following remarks of Malthus to Ricardo: 'In no case of production is the produce exactly of the same nature as the capital advanced. Consequently we can never properly refer to a material rate of produce, independent of demand, and of the abundance or scarcity of capital' (*Works*, VI, p. 117). According to Peach, this comment refers to a corn calculation that had been put forth by Malthus in an inept attempt to defend the competition of capitals theory against Ricardo's criticisms. Realising that the competition of capitals theory cannot be reconciled with any physical determination of the profit rate, Malthus was now correcting—that is, retreating from—his earlier tactical misstep by pointing out that output and capital are never of the same physical composition.

By contrast, we contend what is plain from the context: that Malthus was making a case for his own theory against Ricardo's material determination of the profit rate. Mongiovi (1994, p. 253) made clear the basis for that inference. Malthus's remark appears in a run of correspondence in which Ricardo was arguing for a material determination of the profit rate, while Malthus was defending the competition of capitals doctrine. Thus, in observing that 'we can never . . . refer to a material rate of produce . . .', Malthus was drawing an explicit contrast between his own position and Ricardo's. The textual basis for Peach's alternative reading is flimsy: in the letter of 6 July 1814 to which Peach refers, Malthus does adopt corn as *numeraire*, but he makes no assumption that capital is composed entirely of corn. Moreover, the inconsistency between any corn-ratio formulation and the competition of capitals theory is so apparent that we cannot reasonably suppose Malthus to have meant to use the former in defence of the latter. Peach does not attempt to refute Mongiovi's argument, but instead falls back on the accusation that his opponent has engaged in a sleight of hand.

<sup>1</sup> Mongiovi (1994, p. 252) takes care to point out that Ricardo's 1814 correspondence contains a residue of the terminology of the competition of capitals theory. While this residue may have reflected Ricardo's inability to detach himself fully from the language of his earlier thinking, there can be no doubt that he was then attempting to articulate a new theory which explains the profit rate in terms of the real wage and the technical conditions of production.

But the sleight of hand is entirely Peach's. It occurs in the first instance when he transforms Malthus's deployment of corn as numeraire into a full-blown corn-ratio argument, without regard to what is suggested by the internal dynamic of the debate in which Malthus and Ricardo were then engaged, and despite the difficulty that this transformation requires Malthus to have been unable to recognise the glaring incompatibility between corn-ratio reasoning and his own theory of profits. Then, faced with an argument to which he apparently has no response, Peach resorts to a *non sequitur*: he accuses Mongiovi of 'insinuating' what can reasonably be inferred from the evidence that has been laid out in our original critiques of his book.

Peach (1993, p. 62; 1998, p. 601) attempts to buttress his case by arguing that Ricardo refers only to a material conception of the *amount*—not the *rate*—of profits. The particular passage upon which Peach grounds this point does refer to the magnitude of profits, but it does so in the context of a discussion that explicitly concerns the profit *rate*. Peach thinks it significant that Ricardo here mentions 'neither the rate of profit nor the assumption of capital-product homogeneity'. But the context of the passage unambiguously concerns the profit rate, which Ricardo just as unambiguously conceives in material terms. Moreover, Ricardo would have had no need to refer explicitly to the homogeneity of produce and capital if he and Malthus were discussing an argument whose premises were well understood, if not accepted, on both sides.<sup>1</sup>

According to Peach, Ricardo's conviction that the agricultural profit rate must decline with a deterioration of the conditions of production of corn derives from his pre-*Essay* belief that all prices vary in the same direction as the price of corn: 'increased difficulty of production [of corn] would imply more capital (including wage goods) relative to output, while a rise in price would be common to both output and all elements of capital' (Peach, 1998, p. 605). Ricardo makes this argument in a letter to Malthus of 25 July 1814 (*Works*, VI, pp. 114–15). His purpose is to undermine Malthus's contention that the profit rate depends 'on the quantity of accumulated capital compared with the demand for the products of capital, and not by the mere difficulty and expence of procuring corn' (*Works*, VI, pp. 111, 114). So we are again brought back to the essential point—that Ricardo was arguing for a material explanation of the profit rate, against Malthus's competition of capitals theory.

Furthermore, the argument here put forward by Ricardo, far from representing a refutation of the corn-ratio interpretation, seems on the contrary to be grounded in corn-ratio reasoning. To be sure, Ricardo was conducting his argument in the terms set by Malthus, in the latter's letter of 6 July, that is, with agricultural output and capital reckoned in money prices. We know that while Ricardo at this time still believed that all prices rise with the price of corn, he nevertheless recognised that they do not in general vary in the same proportion as the price of corn (see for example Ricardo to Malthus, 23 October 1814, *Works*, VI, pp. 148–9). Thus, when, to refute Malthus, he supposes that a doubling of the price of corn entails *nearly a doubling* also of the costs and capital employed in its production, we might reasonably surmise this supposition to be grounded in the presumption that agricultural capital consists mainly of corn, so that changes in the prices of non-corn components of agricultural capital would exert a negligible overall influence.

<sup>1</sup> Here the evidence adduced by Langer (1982) and De Vivo (1985) that Torrens and other contemporaries of Ricardo had made use of a corn-ratio argument, has some relevance. To the extent that such an argument was a familiar feature of the economic reasoning of Ricardo's circle, his passing over 'such a fitting opportunity . . . to refer to the putative "rational foundation" for his theory' (Peach, 1993, p. 62; 1998, p. 605) poses no mystery.

## 2. The theory of value

In his reply to his critics, Peach backs away from the most controversial aspect of his book—its portrayal of Ricardo as a hopelessly muddled thinker whose desperate attachment to ‘a “pure” labour theory of value’ reflects a profound capacity for inconsistency and error (Peach, 1993, p. xii, ch. 4, 5). This assessment is coupled with a view of Malthus as the penetrating intellect who exposed the contradictions in the labour-embodied theory and forced Ricardo to face up to them. At the heart of *Interpreting Ricardo* are two long chapters, amounting to nearly a third of the book, which cast Ricardo as a bumbling prevaricator, beset by ‘neurotically self-proclaimed difficulties in the art of composition’ (*ibid.*, p. 46), stubbornly clinging to an argument he knew to be defective, enmeshed in ‘a web of conceptual confusion’ (*ibid.*, p. 205). Peach goes so far as to hint that Ricardo might have sought to ‘bamboozle his readers’ by obscuring the significance of the modifications to the labour-embodied principle required when capital structures differ across sectors (*ibid.*, p. 218).

Peach’s rhetoric is now more subdued, though he continues to hold that Ricardo did not build ‘neat, logically consistent models’. Whether Ricardo ‘built models’ in the modern sense of the term, however, is perhaps less important than that he had a sound intuitive grasp of the logic that connects prices, distribution and the technical conditions of production—a point which, in his reply, Peach does not dispute. Peach observes moreover that ‘Ricardo’s growing awareness of the flaws in his [pre-1816 analysis of the profit rate] was precisely the stimulus that propelled him towards the development of the mature theoretical system that we find in the later *Principles*’ (1998, p. 599), although he seems not to realise that Sraffa had already suggested much the same thing. Peach’s characterisation of the *Principles* as containing a ‘mature theoretical system’ represents a welcome retreat from his earlier view of that book as entirely lacking in coherence, though one might wish that he had taken the trouble to say what he understands this mature theoretical system to be, if it is not what is described in Sraffa’s Introduction.

In distinguishing his own position from Sraffa’s, Peach states that Malthus ‘raised . . . fundamental questions, concerning the . . . pure labour theory’ (1998, p. 607), suggesting that the latter’s role in shaping Ricardo’s thought was more significant than Sraffa appreciated.<sup>1</sup> Peach is more direct in his book, where he writes that ‘*Malthus alone* had recognised the faults in Ricardo’s exposition, and he exposed them with consummate skill. If there was ever a time when Ricardo might have abandoned his labour theory, with good cause, it was in the wake of Malthus’s criticisms’ (1993, p. 238; emphasis added). The difficulty with this statement is that it is patently false: by Peach’s own account Ricardo was himself cognisant of the limitations of the labour-embodied principle, well before Malthus took them up. Torrens too had criticised Ricardo along similar lines.

According to Peach, Malthus’s relentless attack was the driving force in the evolution of Ricardo’s thinking during the course of the composition and revision of the various editions of the *Principles*. This is a bit hyperbolic. No one has ever denied that Ricardo’s arguments were influenced by his debates with Malthus. The revisions Ricardo made in the second and third edition of the *Principles* were aimed at strengthening his case in the light of the criticisms put forth by Malthus and others, and in the light of his own

<sup>1</sup> Peach implies that these ‘fundamental questions’ are somehow different from those, already identified by Sraffa, relating to the interdependence of distribution and prices. But throughout the two chapters of his book devoted to these fundamental questions, Peach fails to present any argument of Malthus’s that is not essentially an aspect of that same issue. (Peach’s off-target remarks about heterogeneous labour are his own concoction, and owe nothing to Malthus.)

reflections on the difficulties raised by the theory of value, which he came to appreciate were more complex than he had at first supposed. To be sure, he was frustrated, as any scientist would be, at his inability to resolve these difficulties. But there is no evidence that he felt himself to be ‘under siege’ (Peach, 1993, p. 202), or that he ever came to regard the difficulties as insurmountable in principle.

Peach acknowledges that Ricardo’s attachment to the labour-embodied theory is undiminished in the second and third editions of the *Principles*. The revisions made by Ricardo in these editions do bring out more clearly the modifying influence of differences in capital structure; *but this influence had already been recognised by him in the first edition*. In view of all this, we might well conclude, along with Sraffa, that Ricardo’s theory underwent no change ‘in essence or emphasis’ between the first and third editions. When Peach insists ‘that the revisions to the chapter “On Value” . . . were more significant than Sraffa had suggested’, he is quibbling over the weight to be assigned to an adjective.

Ricardo’s account of how wages, the profit rate and the technical conditions of production are connected was a sound, novel and crucially important contribution to economic science—a point that Peach steadfastly refuses to see. Whatever influence Malthus, in his capacity as gadfly, may have had on Ricardo’s presentation of his ideas about value, nothing can turn the competition of capitals theory into a correct account of distribution; on this question Ricardo was right and Malthus wrong. Nor can Peach defend his claim that Malthus’s criticisms had an impact on anything other than Ricardo’s *articulation* of views that were in substance already present in the first edition of the *Principles*.

If Peach agrees with Sraffa that Ricardo did not retreat from the labour-embodied principle, he nevertheless contends that Ricardo *should* have done so, since (he asserts) Malthus had shown it to be a mess. But Ricardo was able to see the flaws in the competition of capitals theory, and was able to point the way to a correct understanding of the relation between distribution, prices and the technical conditions of production, by developing and applying the labour-embodied principle. That he accomplished these things with an admittedly imperfect tool—the *limitations of which he himself had discovered and exposed*—is evidence not of theoretical confusion but of a powerful analytic intuition.

Peach complains that he has been attacked for failing to produce ‘a work of hagiography’ to Ricardo (Peach, 1998, p. 612). He misses the point. There is nothing in Sraffa’s interpretation that requires us to think Ricardo incapable of error; on the contrary, Sraffa’s work clarifies the nature of Ricardo’s missteps. Peach’s book is intended as an assessment of Ricardo’s theoretical contributions. Our criticism is that his assessment is wrong because it is wildly, indeed absurdly, unbalanced: it exaggerates Ricardo’s errors; imagines errors where there are none (e.g., the heterogeneous labour argument); takes no account of the difficulty of the problems Ricardo sought to elucidate; and neglects to give Ricardo credit for what he got right, or to acknowledge the importance of his theoretical achievements.

### 3. Ricardo and Sraffa

While Peach acknowledges that there are indeed points of resemblance between Sraffa’s work and Ricardo’s, he nevertheless maintains that Sraffa projected his own theoretical preoccupations onto Ricardo. Peach’s argument on this point is grounded in two claims: (i) that Ricardo’s analysis of distribution was framed ‘at the level of the individual farm (or firm), not at the level of social aggregates’ (1998, p. 613; similarly p. 608), whereas the attribution of a price-balancing function to the sought-after invariable standard makes sense only in the latter context; and (ii) that Ricardo was not principally concerned with ‘purely notional changes in distribution’, but rather with the impact on distribution of

changes in the conditions of production in agriculture consequent upon increases in the demand for food.

Against Peach's view that Ricardo framed his analysis of income distribution at the level of the individual producer and not at the level of the economic system as a whole, one of us had objected 'that a theory of value and distribution, concerned with the "natural" levels of the respective variables obtaining in conditions of free competition, presupposes a general framework of the analysis . . . , which has amongst its data the total amounts of the different commodities to be produced' (Kurz, 1994, p. 416). Only if these amounts are known can the marginal land be determined via the cost-minimising behaviour of producers confronted with a set of alternative techniques and qualities of land, the quantities of which are in given supply. Peach admits that 'Ricardo did (at least implicitly) take all this information as given' (1998, p. 608, fn. 2). By showing that a commodity's price is regulated by the conditions of production on the marginal land, Ricardo could ignore rents in his analysis of the relationship between the real wage rate and the general rate of profits. However, in order to have a full view of the problem of distribution, one has to take into consideration also the intramarginal lands; the rents of these lands are ascertained by comparing the costs of production on them with those on the marginal land, given the real wage rate. To focus attention on an 'individual farm (or firm)' is just not good enough. Ricardo knew better (see, for example, *Works*, I, pp. 79–84).

Peach asserts that the Sraffian literature identifies 'Ricardo's "principal problem in political economy"' as concerning purely notional redistributions of a social product on the basis of given levels of output and conditions of production' (1998, p. 612). But he provides no evidence to support this charge. He misleadingly portrays his critics as treating an important problem, with which Ricardo had tried to come to grips in his theory of value (i.e., the dependence of relative prices on distribution), as Ricardo's 'principal problem in political economy'. The intention is to ridicule the critics' point of view, for everyone even remotely familiar with Ricardo's work will know that his 'principal problem' was to explain the laws governing the long-term distribution of income. Peach's rhetorical trick fails, however, because his critics have never suggested that Ricardo's exclusive, or even his principal, focus was the effect on the profit rate of notional changes in the real wage; nor, for that matter, did Sraffa.

It should be mentioned in passing that Peach makes exactly the opposite mistake of the one he wrongly ascribes to the Sraffians. He contends that the problem raised by the interdependence of prices and distribution, which Sraffa had managed to solve with the help of the Standard commodity, 'was of only peripheral interest to Ricardo; if, indeed, that problem was truly of any interest to him at all' (Peach, 1998, p. 613).<sup>1</sup>

<sup>1</sup> Porta (1986) and Blaug (1999) have made arguments similar to the one put forth by Peach; see also Caravale (1985). Porta, for example, rejects the analogy between Sraffa's Standard commodity and Ricardo's invariable standard of value, on the ground that Ricardo was primarily concerned with the consequences for the profit rate of diminishing returns in agriculture. The complications raised for this project by the interdependence of distribution and prices was, according to Porta, a subordinate issue that 'had no interest [for Ricardo] . . . in itself' (1986, p. 444). This argument is seriously off-target. Ricardo's direct concern was indeed to show how a deterioration of technical conditions of production in agriculture would affect the profit rate. But in investigating this problem, he soon found himself 'stopped by the word price' (Ricardo to Mill, 30 December 1815, *Works*, VI, p. 348), and so was forced to confront the question of how distribution and relative prices are connected. This is the aspect of his work that had been least understood prior to the publication of *The Works and Correspondence*. There is nothing misleading, therefore, in Sraffa's emphasis on what was for Ricardo a vexing side issue. Ricardo understood the solution of this problem to be essential not only to the case he wanted to make about the effects of diminishing returns on the profit rate, but also to a more fundamental understanding of the laws that regulate distribution. Moreover, contrary to what Porta suggests, Ricardo was deeply troubled by the complexities of the theory of value; indeed, he was working on this problem almost up to the moment of his death (see Ricardo, 1823).

One can only wonder what reasoning could lie behind such a contention. It cannot sensibly be doubted that Ricardo was intrigued by the discovery that relative prices depend on income distribution, given the conditions of production, or that he tirelessly sought until the end of his life to clarify the issue. He saw that his surplus approach to the theory of the rate of profits necessitated the elaboration of a sound theory of value. Physically, the rate of profits relates the surplus product (exclusive of rent) to the capital advanced. Ricardo was clear that this ratio generally involved two bundles of heterogeneous commodities which could only be made commensurable by using prices. It is here that Ricardo was confronted with the problem of value. Evaluating the different commodities in terms of the amounts of labour 'embodied' in them allowed him to tackle the problem of the commensurability of the two magnitudes whose ratio gives the rate of profits. However, he soon became aware of the fact that 'natural' prices are generally not proportional to the quantities of labour embodied: the former depend also on the level of the real wage rate (or the rate of profits), and change with that level. He recognised that 'the variety of circumstances under which commodities are actually produced' (*Works*, IV, p. 368) explains why a change in the real wage rate generally has an impact on relative prices. It should therefore come as no surprise that Ricardo was keen to give as precise an account of this relationship as possible. This concern prompted him to seek a measure of value that is invariable with respect to changes in the distribution of income. As Sraffa noted perceptively with reference to Ricardo's letter to McCulloch of 21 August 1823 (*Works*, IX, p. 358), 'this came close to identifying the problem of a measure with that of the law of value' (Sraffa, 1951, p. xli). However, unable to solve satisfactorily the intricate problem of the relationship between relative prices and income distribution, Ricardo had to fall back on the labour theory of value.

According to Peach, Ricardo had not one, but two 'principal concerns': 'the analysis of changes in distribution wrought by altered conditions of producing wage-goods, and the defence of a pure labour theory of value'. Sraffa, Peach contends, shared neither of them (1998, p. 614). Against this, the following should be pointed out. First, the labour theory of value was not an independent concern of Ricardo's, but for the reasons just given was subsidiary to Ricardo's sole principal concern: the study of the long-term tendency of the rate of profits and the other distributive variables. Second, though Sraffa solved the problem of the dependence of relative prices on the distribution of income in general terms, Ricardo was able to provide important insights into it. In particular, we owe to Ricardo the insight that the labour theory of value, as a theory of relative prices, is strictly correct in two special cases only: first, the case of a zero rate of profits (a case already known to Adam Smith); and, second, the case in which 'the circumstances under which commodities are actually produced' are everywhere the same. These insights are confirmed by Sraffa.

Interestingly, Peach 'fully concede[s] that some similarities do exist between Sraffa's work and Ricardo's'. He mentions 'the examples of a *surplus treatment of distribution*, a penchant for isolating particular causal or (supposedly) dominant relationships, and the absence of both a neoclassical-style demand analysis and an account of production and distribution running in terms of factors of production' (Peach, 1998, p. 612; emphasis added). Indeed, both Ricardo and Sraffa advocated surplus theories of profits (and rents). To explain profits as a residual involves taking the real wage rate as a given (and independently variable) magnitude. Peach confirms this with regard to Ricardo who is said to have 'favoured a "fixwage" style of analysis' (*ibid.*, p. 614). But then Peach tries to dispel his previously expressed view that Ricardo and Sraffa shared a similar approach to

the analysis of value and distribution. He does this in a rather puzzling fashion, by remarking that 'It is always possible to define terms and relationships as we please' (*ibid.*). It is not clear what he intends to tell us with this clouded remark. In any case, irrespective of whether it is true that we can 'define terms and relationships as we please', what is at stake here is how *Ricardo and Sraffa* defined the relevant terms and relationships. Setting aside the problem of *ante* or *post factum* payment of wages, there is no substantial difference between how Ricardo and Sraffa defined natural prices and the rate of profits or how they conceptualised the inverse relationship between the real wage rate and the profit rate. Sraffa's analysis is certainly much more sophisticated than Ricardo's, but it starts from essentially the same analytical premises.

As we have seen, one of these premises is to take the level of one of the distributive variables as given. Peach comments: 'it is not clear to me that the assumption of a given distributive variable is sufficient to yield a sharp distinction with neoclassical theory unless the latter is identified exclusively with a particular (general equilibrium) form of analysis' (1998, p. 614). This elicits the following remarks. First, who has ever said that it is 'sufficient'?<sup>1</sup> But Peach can hardly deny that it is a necessary ingredient of any 'surplus treatment of distribution' that the distributive variables are dealt with asymmetrically. Therefore, it is not clear what he means when he writes: 'If only by *ignoratio elenchi*, the Kurz–Mongiovi criterion indeed establishes Ricardo as a Sraffian, albeit at the cost of trivialisation' (*ibid.*, p. 614). Rather than attempting to provide a clear picture of alternative theories of value and distribution, which would allow him to locate the analyses of Ricardo and Sraffa, he contents himself with murky rhetoric.<sup>2</sup>

Second, it should be clear that the point of reference ought to be long-period neoclassical theories adopting a general framework of the analysis. But Peach's reference to a fixwage hypothesis seems to suggest that the comparison should be with short-period neoclassical theory.<sup>3</sup> To compare the long-period analyses of Ricardo and Sraffa with short-period partial neoclassical analyses would be a pointless exercise. Peach appears to be ruling out the only comparison that makes sense. And he can hardly deny that neoclassical authors from Jevons to Marshall, from Böhm-Bawerk to Wicksell, and from Walras to Cassel were keen to reject the asymmetric treatment of the distributive variables and replace it by a symmetric one in terms of the relative scarcities of the respective 'factors of production', that is, in terms of supply and demand. Peach himself has stressed the absence in both Ricardo and Sraffa of 'an account of production and distribution running in terms of factors of production'.

In view of Peach's statements, which are not consistent among themselves, it remains unclear what relationship he believes to exist between the analyses of Ricardo and Sraffa. Without having reached clarity in this regard, he lacks a criterion to assess alternative

<sup>1</sup> A detailed exposition of the important differences between classical and neoclassical theories can be found in Kurz and Salvadori (1995, especially ch. 1, 13 and 14).

<sup>2</sup> Indeed, one might argue that it is Peach who trivialises matters by characterising Ricardo's treatment of wages as a 'fixwage theory', as though there is nothing behind it but the assumption that a particular variable is treated as parametric. On the contrary, the classicals viewed distribution as determined by a complex set of historical, institutional and economic processes. Fixwage models were introduced into the economics literature in the middle of the twentieth century as a way to account for actual phenomena, such as persistent large-scale unemployment, that cannot easily be reconciled with the by then dominant marginalist supply-and-demand theory of distribution. Ricardo's treatment of the wage as given in his explanation of the profit rate has nothing at all in common with the orthodox characterisation of an inflexible real wage as an impediment to the equilibrating forces of supply and demand in the labour market.

<sup>3</sup> See also Peach (1993, p. 158), where the claim is explicitly made that Ricardo's 'analytical focus was not ... on "long-period" value comparisons'.

interpretations of Ricardo. On what grounds then can he justify his ‘position that the relationship between Ricardo and Sraffa has been exaggerated, not that it is totally fictitious’ (1998, p. 614)? While some interpreters may have fallen victim to the danger of exaggeration, others, including Peach, have certainly fallen victim to the opposite danger of playing down or belittling the relationship.

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