

Mark Blaug on the “Sraffian Interpretation of the Surplus Approach”

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In a paper published in *HOPE* Mark Blaug (1999) has put forward a critical assessment of Piero Sraffa's interpretation of the classical economists and the literature inspired by it, including some of our works (Kurz and Salvadori 1995, 1998a, 1998b). Due to space constraints we can offer only a summary of some of our arguments in response. For obvious reasons we must essentially proceed in terms of assertive statements. The reader interested in the full argument and the evidence from the writings of the classical authors in its support is invited to visit our home pages and click on the link to “Understanding ‘Classical’ Economics: A Reply to Mark Blaug” (Kurz and Salvadori 2000). We begin with a few preliminaries (section 1) and then turn to the “Sraffian” and Blaug's alternative interpretation of the classical approach to the theory of value and distribution (sections 2 and 3).

1. Preliminaries

First, Blaug's exposition is organized around the distinction between “rational” and “historical” reconstructions (213). We do not find his definitions of the two concepts useful and observe that he himself does not employ his definitions in a consistent manner and quickly distances

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himself from the maxim he proposes.¹ We agree with Blaug that any interpretation of earlier authors should be faithful to what these authors wrote. The question then is how the Sraffian interpretation, or any of the competing interpretations, including Blaug's, fares vis-à-vis this criterion (see sections 2 and 3 below).

Second, Blaug conjectures that the content of the classical theory is unavoidably betrayed by modern formulations because of their concern with analytical rigor and mathematical formalization (229, 232, 233 n. 13). As against this we recall, for example, the untiring efforts of David Ricardo and his followers to elaborate a coherent theory of value and distribution.² Blaug also contends that the mathematical form implies "read[ing] Smith and Ricardo and Marx through Walrasian-tinted glasses" (229). Here Blaug mistakes the form of an argument for its substance. The real issue appears to be this: While Ricardo was explicitly in favor of analytical rigor and mathematical precision, he did not think that economic laws could indiscriminately be established like mathematical truths with regard to *all* spheres of socioeconomic life. In his letter to Thomas Malthus of 9 October 1820 he wrote:

Political Economy you think is an enquiry into the nature and causes of wealth—I think it should rather be called an enquiry into the laws which determine the division of the produce of industry amongst the classes who concur in its formation. *No law can be laid down respecting quantity, but a tolerably correct one can be laid down respecting proportions.* Every day I am more satisfied that the former enquiry is vain and delusive, and the latter only the true objects of the science. (Ricardo 1951–73, 8:278–79; all emphases in quotations are ours)³

1. When we use the concept of "rational reconstruction" (see Kurz and Salvadori 1998b, 1), we do it in the sense of Imre Lakatos (1978).

2. As a contemporary of Ricardo's noted, Ricardo "meets you upon every subject that he has studied [with] opinions in the nature of mathematical truths" (Ricardo 1951–73, 5:152 n. 2). And in a letter to James Mill of 1 January 1821 Ricardo wrote: "Political Economy he [Malthus] says is not a strict science like mathematics, and therefore he thinks he may use words in a vague way, sometimes attaching one meaning to them, sometimes another and quite different. No proposition can surely be more absurd" (Ricardo 1951–73, 8:331).

3. An important aspect of the "tolerably correct law" concerning "proportions" refers to the fact that, given the system of production in use, once the real wage is known, the rate of profits is determined, with a rise in the former involving a fall in the latter and vice versa. Ricardo's analytical discovery was acclaimed by virtually all his interpreters, including Blaug ([1962] 1997, 96), who spoke of Ricardo's "fundamental theorem of distribution." Interestingly, when discussing this theorem Blaug explicitly had recourse to a model by Luigi Pasinetti in order "to spell out Ricardo's meaning in mathematical terms" (97).

Third, and most important, there is no doubt that the classical economists were concerned with an economic system incessantly in motion. They were keen to explain the dynamism of the modern economy, its growth and structural change. Contrary to Blaug's claim (215), this has never been denied by us or any of the "Sraffian" authors, let alone Sraffa himself. Hence the problem is not *whether* these "dynamic" issues were part and parcel of classical economics—of course they were—but rather *how* the classical economists dealt with them. *That* is the crucial question. The ingenious device of the classical authors to see through the highly complex system in motion consisted in distinguishing between the "market" values of the relevant variables—prices of commodities and rates of remuneration—and their "natural" values. The former were taken to reflect all kinds of influences, many of an accidental or temporary nature, whereas the latter were conceived of as expressing the persistent, nonaccidental and nontemporary factors governing the economic system. In conditions of free competition, that is, in the absence of significant and lasting barriers to entry and exit from all markets, profit seeking necessarily involves cost minimization. Hence the attention focused on cost-minimizing systems of production and the method of long-period positions of the economy. The classical authors studied the growth and development of an economic system essentially in terms of a sequence of long-period positions reflecting changes in output levels, technical knowledge, the scarcity of renewable and depletable resources, and the balance of power between the different classes of society. The long-period method was *the* analytical tool elaborated by them in order to study the complex dynamic processes under consideration.

In the following section we show that Blaug's main criticism of the Sraffian interpretation cannot be sustained. Section 3 then turns to Blaug's alternative characterization of what he calls the "core" of classical economics; we show that, ironically, he arrives at essentially the same view of the logical structure of the classical approach to the theory of value and distribution as Sraffa.

2. The Classical Approach to the Theory of Value and Distribution

The concept of a distinct classical approach to the theory of value and distribution was put forward by Sraffa (1951). Blaug agrees that classical

economics is characterized by “a particular theory of value and distribution” (233), which is different from the neoclassical demand and supply theory. However, he claims to strongly disagree with Sraffa’s interpretation (215); yet, in fact, as we shall see, he essentially endorses it.

At the heart of Blaug’s criticism appears to be a confusion between attributing a particular analytical method to the classical economists and attributing particular propositions about reality to them. Blaug contends: “Sraffa tells us that there are ‘no changes in output’ in ‘the old classical economists’” (224). This is, of course, not true: Sraffa never maintained that the classical authors did not contemplate changes in output. Blaug perhaps alludes to the fact that in Sraffa’s book “the investigation is concerned exclusively with *such properties of an economic system* as do not depend on changes in the scale of production or in the proportion of ‘factors’” (Sraffa 1960, v). To focus attention on such properties of an economic system does not mean, of course, to maintain that there are no such changes. It only means that these changes are set aside in the respective investigation.⁴ What is at stake is a *method* designed to analyze an aspect of the economic system and not a factual proposition that the system is stationary. To start from given levels of gross outputs, designed to reflect the degree of the division of labor reached by a particular economy at a given stage of its development, is therefore not a “myth” invented by Sraffa (Blaug 1999, 222), but rather a premise congenial to Smith’s important concept (see Kurz and Salvadori 1998a, 1:325–29).

More precisely, and focusing attention on Ricardo’s elaborate construction, studying the laws governing the distribution of income involved (1) isolating the factors determining that distribution *in a given place and time* and (2) investigating the causes of changes in these factors *over time*. Ricardo isolated the following data:

- (a) The set of technical alternatives from which cost-minimizing producers can choose.
- (b) The size and composition of the social product, reflecting the needs and wants of the members of the different classes of society and the requirements of reproduction and capital accumulation.

4. We are not aware that any Sraffian, let alone Sraffa himself, has ever claimed that Sraffa’s book was meant to exhaust classical economics in all its fascinating detail. Yet, surprisingly, this is precisely the claim Blaug attributes to them. As we know from Sraffa’s hitherto unpublished manuscripts, his book was designed to prepare the ground for an analysis of capital accumulation, growth, and technical change in the same way as Ricardo’s approach to the theory of value and distribution was designed to prepare the ground for his discussion of these issues.

- (c) The ruling real wage rate(s).
- (d) The quantities of different qualities of land available and the known stocks of depletable resources, such as mineral deposits.

Ricardo singled out these factors as the dominant ones determining the rate of profits, the rates of rent, and "natural" prices in a given place and time.⁵ However, at the same time he saw the above independent variables as containing the key to the problem of the long-run development of income distribution and relative prices. In particular, in his analysis of capital accumulation and of different forms of technical change Ricardo emphasized the full interaction among both the dependent and the independent variables.

It deserves to be stressed that Ricardo's intuition was correct: on the basis of the above data one can indeed determine in a coherent way the unknowns or dependent variables. No other information or data are needed. This is an important fact in itself. In addition it is to be emphasized that *any* coherent long-period theory of value and distribution must start from a set of data, which implies the set a–d of variables that the classical authors took as given. As we shall see below, Blaug's "alternative" is no exception to this rule.

Economic theory invariably proceeds by cutting slits into the "seamless absolute whole" (in Nicholas Georgescu-Roegen's words) of socio-economic phenomena. This involves adopting some bold simplifications which, in turn, requires some intimate knowledge of the corresponding phenomenal domain. It seems that our high esteem for the achievements of the classical economists concerns this knowledge of the subject matter no less than their analytical skills. The classical approach to the theory of value and distribution in terms of the set of independent variables a–d exemplifies this. Clearly, none of the classical authors denied that outputs, techniques, the distribution of the product, and relative prices were interdependent and that each of these sets of magnitudes was bound to change over time. However, in determining the rate of profits, the rents of land, and relative prices *in a given economy at a given time*, Ricardo and the other classical economists started from data a–d, reflecting the achieved state of the accumulation of capital and technical knowledge,

5. For detailed evidence, see Kurz and Salvadori 2000. It is also interesting to note that authors such as William Stanley Jevons, Léon Walras, and Knut Wicksell had less difficulties than some present-day commentators in seeing that the classical economists started from the above data when determining the rate of profits and relative prices; see Kurz and Salvadori forthcoming.

the scarcity of natural resources, and the relative strength of the parties, "whose interests are by no means the same," in the "dispute" over the distribution of income (Smith [1776] 1976, bk. 1, chap. 8, sec. 11).

It never occurred to us to interpret the classical economists as assuming that the independent variables or "data" a–d above are data characterizing once and forever the economy under consideration, that is, historical constants. Yet, surprisingly enough, this is precisely the interpretation Blaug contends we are advocating. Nothing could be farther from the truth.⁶

It hardly needs to be emphasized that independent variables are still variables. The magnitudes under consideration are only treated as known in one part of classical theory: the determination of the shares of income other than wages, and relative prices; in other parts of the theory they are themselves treated as dependent variables or unknowns. In other words, variables a–d, while magnitudes *external* to the classical approach to the theory of value and distribution, are magnitudes *internal* to the classical theory as a whole.

Let us have a closer look at Blaug's criticism. As regards datum a, Blaug explicitly admits what we have stated. His references to Ricardo's discussion of agricultural improvements or of machinery (219) are materially of no import, because we have never denied that over time technical knowledge will change. Yet, as Ricardo's numerical illustrations of agricultural improvements make clear, he compared two situations defined in terms of the *same* information concerning data b–d, but different information concerning datum a (see Ricardo 1951–73, 1:80). (He left no doubt that this is only a first step in an analysis of the impact of technical change on income distribution and relative prices.) For a similar procedure, see Ricardo's chapter on machinery. We were also surprised that Blaug could write: "Far from technology being given to capitalists, the choice of technique is the very heart of the contested terrain between workers and capitalists" (222). As is well known, the problem of the choice of technique forms a centerpiece of Sraffa's analysis (1960, part 3) and the literature inspired by it (see Kurz and Salvadori 1995).

As regards datum b, Blaug objects: "Come, come: the volume of output, alongside the size of the labor force, is constantly rising in Ricardo" (224). True, output levels (at least of many products) may rise over time,

6. Has Blaug ever interpreted Marshall's *ceteris paribus* clause as involving the assertion that what is there taken as given will never change?

but in order to ascertain the rate of profits, the rent rates, and relative prices in a given place and time, what matters are output levels (and, of course, techniques and the real wage rate) in the given place and time.

Concerning datum *c*, it should be stressed that what the classical economists took as given with regard to a particular economy at a particular time was the wage rate of "common labor" and the scale of wage differentials. The latter was considered to be fairly stable over time (see, e.g., Smith [1776] 1976, bk. 1, chap. 10, sec. c, para. 63; and Ricardo 1951–73, 1:20–21). It is difficult to see wherein precisely Blaug disagrees with us. He stresses that the classical authors "regarded the minimum-level-of-existence wage rate . . . as something that . . . *could be taken as given* in analyzing a practical question, like a tax on wage goods" (227). To take the real wage rate as given in one part of the analysis does not mean to assume that the wage rate will forever remain at that level. It also does not preclude that in another part of the analysis the real wage rate is seen as depending, *inter alia*, on cultural, institutional, and historical factors. In order to avoid confusion one ought to distinguish between the different spheres of analysis.⁷

Blaug's final objection reads: "Besides (and now we come to the crux of the matter), the idea that the classical economists must have taken the real wage as a datum because the logical consistency of their theory demanded it is a perfect example of a rational reconstruction of past theories: it reads Smith and Ricardo and Marx through Walrasian-tinted glasses" (229). This is a misrepresentation, because the argument is *not*, as Blaug maintains, that the classical economists *ought* to have taken the real wage rate as a datum when determining the rate of profits etc., but that they actually *did* take it as such, as Blaug in places himself admits. He provides no evidence to the contrary.

3. Blaug's Alternative Conceptualization

Blaug concludes his paper by asking: "So, is there a 'core' of classical economics?" (232).⁸ His answer is: "Obviously, yes if by *core* we mean a *central strand* by which we recognize a work as belonging to 'classical

7. This should also suffice to dispel Blaug's suspicion: "to say that the classical economists treated the 'natural price' of labor as exogenous [means to say that they treated it] as determined outside their theoretical system" (228). This is either a misunderstanding or a non sequitur.

8. In this context it deserves to be stressed that Blaug grossly misrepresents the concept of "core" as defined by Garegnani (1984).

economics,' the strand that unites Smith in 1776, Mill in 1848, and Marx in 1867. It is made up, all commentators agree, of a *particular theory of value and distribution*" (232–33).

So what is common to these authors, especially as opposed to the advocates of neoclassical economics? Blaug insists: "First, classical value theory focuses on long-period equilibrium prices characterized by a uniform rate of profit on capital, . . . in short, what Smith called 'natural prices'" (233). Blaug's specification concerns what was called above the long-period method. Yet since this method was essentially adopted also by all major marginalist economists until the late 1920s (see Garegnani 1976 and Kurz and Salvadori 1995, 427–55), in order to be able to discriminate between a classical and a neoclassical approach we must turn to their respective contents.

As regards the content of the former, Blaug emphasizes that the "natural prices were determined . . . *in the context of a technology of production* characterized in physical terms and expressed for practical purposes in hours of labor" (233). The reader may wonder what is the difference between this and datum a. And if the "technology of production" were not taken as given, how could natural prices or hours of labor expended in the production of the different commodities ever be determined?

The long-period method together with some version of datum a is also present in traditional marginalist theory. Hence, more is needed in order to identify the specificity of the classical approach. Blaug is aware of this and adds that "the 'core' of classical economics always involved some version of the labor theory of value" (233). Clearly, the quantities of labor embodied in the different commodities cannot generally be determined independently of output levels and the available quantities of different qualities of land. Hence, in order to determine labor values, some information of the kind summarized in data b and d is needed. Since Blaug does not separately specify these data, we must interpret his above formula "in the context of a technology of production" as a catchall phrase involving both a, b, and d.

Can the classical theory of value be distinguished from the traditional marginalist one in terms of the presence of "some version of the labor theory of value"? The answer is obviously no. First, none of the authors mentioned by Blaug (Smith, Mill, Marx) was of the opinion that (other than in singularly special cases) relative prices are strictly proportional to the relative quantities of labor embodied in the different commodities, which is the usual meaning of the labor theory of value. The latter

can hardly be said to have been an indispensable element of classical analysis. It was simply a useful tool at a certain stage of the development of the analysis that could be dispensed with as soon as the role performed by it could be assumed by a more correct theory. The fact that they were not possessed of a fully correct theory of value and distribution might contribute to explaining why, according to Blaug, "both Ricardo and Marx were so obsessed with the labor theory of value" (217). Second, many of the early marginalist authors, despite their completely different approach to the theory of value and distribution, can also be said to have held "some version of the labor theory of value." Ironically, some of these authors were stern advocates of the view that with regard to reproducible goods the then novel (marginal) utility theory of value amounted to materially the same thing as the pure labor theory of value. Like William Stanley Jevons, Eugen von Böhm-Bawerk, Friedrich von Wieser, and Philip Wicksteed before him, John Bates Clark as late as 1899 was still insisting: "In the subjective valuations of society, as an organic whole, the product of two hours' labor is always worth just twice as much as is the product of one. Mere labor time is an accurate gauge of the values of different complements of goods" (Clark [1899] 1965, 390).

Blaug's above criterion therefore cannot perform the role of a litmus test of what is to be considered as genuinely "classical" in the theory of value and distribution. Before we continue, we ask: Why did none of the classical authors advocate the pure and simple version of that theory? Because at least since Ricardo they knew that this would have been strictly correct only in the singularly special case of uniform proportions of direct labor to means of production and uniform degrees of durability of fixed capital across all lines of production. Blaug is aware of this, and he is equally aware of the fact that in the only interesting, because realistic, case of nonuniform proportions, prices depend not only on the technical conditions of production but also on income distribution. Clearly, data a, b, and d generally do not suffice to determine relative prices and, as the classical authors knew very well, they never suffice to determine the competitive rate of profits. They saw that something like datum c was needed in order to render the theory determinate.

How does Blaug complete his purportedly alternative conceptualization of the characteristic features of the classical theory of value and distribution? He contends that the "core" of classical economics involved also "a more or less detailed analysis of the forces making for capital accumulation and, of course, a thin or thick version of the Malthusian

theory of population" (233). The interplay between capital accumulation and the Malthusian population mechanism is discussed in chapter 5 of Ricardo's *Principles*. That interplay is invoked by Ricardo in order to argue that the market wage rate tends to move toward the natural wage rate. This involves a particular view of the forces governing the real wage rate. Hence, in his rational reconstruction Blaug's reference to the Malthusian theory of population in effect provides the missing piece in terms of a special form of datum c that renders the theory determinate. Notwithstanding his frontal assault on the set of independent variables a–d as a characteristic feature of the classical approach to the theory of value and distribution in the main part of his paper, Blaug in the end endorses a special version of precisely that set.

The Malthusian theory of population, we suggest, does not form a constituent part of the classical approach to the problems of value and distribution. Blaug, who, as we have seen, counts Marx—a fierce critic of Malthus—among the classicists, will have difficulties in discerning traces of that theory in his analysis. Smith held essentially a bargaining theory of wages, focusing attention on the relative strengths of the parties, "workmen" and "masters." In the case of Ricardo things are particularly complex. While there are references to the Malthusian theory of population, Ricardo's works abound with observations questioning its validity. For example, Ricardo stresses that "population may be so little stimulated by ample wages as to increase at the slowest rate—or *it may even go in a retrograde direction*" (Ricardo 1951–73, 8:169). And in his *Notes on Malthus* he insisted that "population and necessaries are not necessarily linked together so intimately": "better education and improved habits" may break the population mechanism (Ricardo 1951–73, 2:115).

We conclude that Blaug's own reconstruction of the core of classical analysis is a variant of the set of data a–d. We have also provided evidence that his variant cannot be considered an interpretation that is historically more faithful to what is common to the authors under consideration than the one advocated by Sraffa and economists working in his tradition.

Finally, we should like to stress that if data a–d specify the *logical structure* of the classical approach to the theory of value and distribution with its *asymmetric* treatment of the distributive variables, an author, or parts of his analysis, may be called "classical" if we encounter this logical structure in the theory of value and distribution put forward by him or

her. The approach could survive because it does not depend on particular historical conceptualizations of some of its elements. More specifically: it does not stand or fall with the validity of the labor theory of value or of the Malthusian theory of population. This is the reason why the classical approach to the theory of value and distribution is not only of interest to the historian of economic thought, but also to the modern economic theorist.

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