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Professor Blaug on understanding classical economics

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Abstract of the paper

In Blaug's view, the interpretation he labels as "Sraffian" considers the classical economists through the "distorting lenses" of "linear models of production" and overlooks the central importance those authors gave to institutional and political elements. This view appears however to be founded on a misreading. Unlike what Blaug supposes, that interpretation does not take outputs and real wages as ultimate data, but only as what we may describe as "intermediate" data: they are determined, that is, prior to, and separately from, the non–wage distributive variables which are then obtained as the difference or surplus of a given output over the given subsistence–based wages (and means of production) consumed in its production. By ignoring that prior classical determination, Blaug in fact neatly excises from the interpretation he is criticising the very institutional and political factors which he, then, unsurprisingly finds missing, and which are those playing the dominant role in the (separate) determination of wages and outputs. Blaug's detailed criticisms are shown to confirm that basic misreading.

It is further pointed out how the "Canonical" interpretation of classical wages which Blaug shares with Samuelson and other interpreters, and to which he essentially refers in his article, appears to beg the question of the demand and supply distributive mechanism it attempts to trace in Smith and Ricardo. It does so when it has to introduce a neoclassical type of elastic labour demand function to trigger off the wage changes destined to balance the growths of labour and capital — a process which in those classical writers is instead based, we argue, on the varying pressure of labour underemployment ("redundant population") implied in what they often describe as the "proportion of the demand to the supply of labour", two single quantities and not the modern functions which go by that expression.

Blaug's contradictory rejection of the "Sraffian interpretation" — key elements of which, like the so called "corn model" or the recognition of permanent labour unemployment by classical authors, he has long shared — are then traced to his difficulty in conceiving the possibility of a theoretical paradigm alternative to the dominant one, such as it existed in the old classical economists before the drastic break in theoretical continuity which occurred after Ricardo's death.

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PROFESSOR BLAUG ON UNDERSTANDING CLASSICAL ECONOMICS

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I. Introduction

1. Professor Blaug must be thanked for the opportunity which his article (*History of Political Economy*, 1999; unspecified page references are to it) offers for discussing some important issues in the interpretation of the classical economists. He must be particularly thanked for exposing the need to clarify the work done on bringing out that "standpoint of the old classical economists" which has been "submerged and forgotten since the advent of the marginal method" (Sraffa 1960, v). It is work, which has centred on tracing the principles underlying the standpoint, so as to compare them with those of modern theory.

Given the initial general acceptance of Sraffa's interpretation, with the later challenges turning only on Ricardo's early theory of profits, less attention was devoted to relating those abstract principles to the body of classical writings with its different authors and topics. [1] One result of this seems to have been the paradox that an interpretation pointing to the role which the classical economists gave to institutional and historical factors in the division of the product between classes, in capital accumulation or the development of technical knowledge is being criticised as an "amazingly narrow" one which looks at those economists "through the lenses of the linear production model" (233) and ignores their broader social and political interests (217; 234; also 1987, e.g. 442). A merit of Blaug (1999) is that he gives effective expression to this paradoxical criticism, thus offering an important possibility of clarification.

But the need of clarification that Blaug (1999) exposes goes further. The contrast between the seeming "narrowness" of the interpretation and the evident broad character of classical works, has lent credibility to the idea of an

* University of Roma Tre. The essay has been stimulated by Blaug (1999). A shorter version of it has already been published on the Spring 2002 issue of *History of Political Economy*. I wish to thank for their comments Professors R. Ciccone, H. D. Kurz, F. Petri, A. Stirati and participants of the 2000 Conference of the European Society for the History of Economic Thought (E.S.H.E.T.) in Graz where a first draft of this paper was presented.

[1] However works like Aspromourgos (1986); de Vivo (2000); Gilibert (1977); Marcuzzo and Rosselli (1991); Pivetti (1991); Stirati (1994); Vaggi (1987); Vianello (2002) and others have validly dealt with specific classical authors or specific aspects of their work in the light of that interpretation.

interpretation which reads "backwards" into Smith's and Ricardo's texts [2] the theoretical alternative to neoclassical theory which Sraffa has advanced — as if the contrary had not rather been the case, with those texts being the sources to which one had to resort in order to understand Sraffa's terse book (1960).[3] This second criticism also finds effective expression in Blaug (1999) and other works of his, thus again offering a chance for clarification.

2. Professor Blaug, we said, is critical of the interpretation of the classical economists advanced by "Sraffians" (I may note in passing how such collective references may easily, if unwittingly, result in blurring the targets of criticism).[4] He claims that that interpretation based on the notion of social surplus, while adequate for Quesnay and the French Physiocrats (*e.g.* 1987, 439), does not provide a historically valid reconstruction of the work of the British classical economists.

A first reaction to this position is surprise, since in his concrete work on the classical economists Professor Blaug has often acknowledged basic elements on which the "Sraffian" interpretation rests. To give an important example, since (1958) Blaug has pointed out the presence in Ricardo of permanent labour unemployment curable, that is, only by further capital accumulation (par. 20 below). This clearly contradicts a wage determined by the intersection of demand and supply schedules as in modern theory, and is by itself sufficient to raise the question of an alternative theory of distribution in Smith and in Ricardo. More precisely, it is then natural to ask by which mechanism other than labour demand and supply schedules did those authors envisage population and capital as bringing about the subsistence–based wage trend they referred to (par. 14–15 below). And, as we shall see below (par. 20–21), other central elements of the "Sraffian" interpretation have been accepted by Blaug, among which the basic proposition he describes as Ricardo's "Fundamental theorem of distribution", expressed in the so called "corn model", under which a determination of profits as a difference or surplus is in fact acknowledged to be present in Ricardo. [5]

[2] *E.g.* Blaug 1999 (215–16); 1987 (440–441); 1988 (28). See also Peach 1999 (458) and *passim*.

[3] That, at least, has been my personal experience. Stimulated by Sraffa (1951) to a Cambridge Ph.D dissertation (1958) comparing the classical and marginalist approaches to distribution on the question of the measurement of capital, I then found in the classical works I had become acquainted with the basis for understanding Sraffa's (1960) book when it came out (cf. n. 6 below).

[4] Peach, who in (1999) advances essentially the same two criticisms of the "Sraffian" interpretation, provides on the other hand an example of the risks of such collective references: in his article it is at times difficult to trace by which specific author, or by which precise arguments some positions he criticises have in fact been advanced (cf. *e.g.* below Section V, n. 25, and VI, n. 35).

[5] Thus the "corn model" is seen to show that for Ricardo "total profits are a *residual* equal to the total produce–less–rent–minus the wage bill" (Blaug 1962, 86; our italics; similar references to the "corn model" for Ricardo's theory of distribution can be found in O'Brien 1975, 40 and *passim*).

The above contradiction in Blaug's position comes, we shall suggest, from his seeing those classical elements in isolation from each other rather than in the connections which make them aspects of an approach to distribution and prices, basically different from the modern one. Blaug has then to fall back on ascribing to confusion or primitivism the undeniable striking differences of Smith's and Ricardo's analyses from the modern ones (see e.g. par. 14–15 and 20 below). The criticism of the surplus interpretation of Sraffa by Blaug and others authors is ultimately traceable, we shall argue, to the difficulty of conceiving of an approach to distribution other than the one based on demand and supply functions for "factors of production".

3. This difficulty of conceiving an alternative theory finds indeed a first confirmation when in his article Blaug describes the "Sraffian" interpretation as one for which the classical economists addressed the question of

> "how an economic surplus is generated, spent, and augmented from period to period",

where "economic surplus" is described as what

> "is left over after capital consumption has been made good and workers fed" (216; see also 214).

However what was originally meant in that interpretation was more specific, and not at all a question of *subject matter* as might instead be gathered from Blaug's passages. It was question of tracing in Smith and Ricardo a *theory of distribution and relative prices* altogether different from any however primitive form of the neoclassical demand and supply of 'factors'. [6] In that alternative theory the non–wage distributive variables were determined on the basis of the *difference* between a previously determined (net) social product and a previously determined wage governed by workers subsistence. [7]

Aware perhaps of the vagueness left by his definitions, Blaug then focuses his attention on what he describes as the "hard version" of the interpretation, which he traces in particular to my work. He characterises that version by the role of "data" which he says I have attributed to the real wage, the outputs, and technical knowledge in Smith and Ricardo. But what I contended was quite different:

[6] This was what I argued when advancing that interpretation in Part I of the mentioned (1958) Ph.D. dissertation and then in (1960).

[7] On the other hand we do not need to enter here into the further problem of how the surplus was then divided between profits on capital and rent on land according to the several authors: Ricardo's procedure is well known; for the question in Smith and more generally the attribution to Adam Smith of the above notion of surplus cf. VI, n. 35 below.

it was that those circumstances were data for determining the non–wage distributive variables and the relative prices, and not data for the theory as a whole. [8]

The question is really the same just mentioned of a specific theory of distribution determining the non–wage variables as a residual or surplus of the product over the wages. Within such determination, the physical product and the real wages had evidently to appear as givens, [9] but since no economist, least of all Smith and Ricardo, can avoid being concerned with determining product and wages, that really meant that those magnitudes (and the technical conditions with them) were determined previously, and therefore separately, from non–wage distributive variables and prices. They only appeared as data in the purely quantitative "core" of the theory where the relationships between the distributive variables and prices enforced by free competition allowed determining profits and/or rents, as a residual. In that precise sense, those 'data' were, we may say, "intermediate" and not "ultimate" in the theory. [10]

We shall see in par. 7 below *why* that "separate" determination, but we may notice already how the misreading about "data" can be responsible for the reversal in the thrust of the "Sraffian" interpretation we pointed out in par. 1. The socio–institutional richness of the classical authors emerges precisely in the determination of wages, outputs and technical conditions, which Blaug neatly excises from the "Sraffian" interpretation the moment in which he ascribes to it a treatment of those circumstances as "ultimate" data.

4. Section II of our Comment will deal with Blaug's above misreading about data and some related issues. In Section III–V we shall consider Blaug's detailed arguments concerning the role of the technical conditions of production, the outputs and the wage in classical theories. In Section VI the discussion of Smith's and Ricardo's theory of wages conducted in Section V will allow us to go deeper into the determination of outputs, and thus into the essential structure of those authors' analysis. Finally in Section VII we shall try to pull together the threads of our argument, while also following Blaug in an incursion into economic theory, as distinct from its history.

[8] Cf. Garegnani, *e.g.* 1984 (293), where I write of the three circumstances as being known "prior to the determination of the surplus".

[9] It is interesting to notice how the kinship between the above treatment of distribution, and the "corn model" he attributed to Ricardo (n. 5 above), did not alert Blaug to the true terms of the interpretation he criticises.

[10] Of course several other circumstances *e.g.*, the natural resources, were taken as given. However only circumstances that are liable to *change* in a context of interest to the economist, are relevant as "data". We may also note here how the distinction between the two kinds of data is foreign to modern theory where tastes, technical knowledge and endowments have been generally treated as "ultimate" data. There also however those circumstances would turn into "intermediate" data when a determination of them were envisaged as *separate* from the general–equilibrium determination of prices and outputs.