The Legacy of Ricardo

Giovanni A. Caravale, Ed.

Review Article by
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I. The Interpretation of Ricardo

A feature of the economics literature is that original contributions are often interpreted in alternative, seemingly incompatible, ways. Separate lines of research seem to originate in the work of the same few classical writers. Ricardo represents an important example of how alternative lines of inquiry have influenced economists' reconstruction of the history of economic thought.

The publication of Ricardo's collected works by Sraffa [1951], and Production of Commodities by Means of Commodities [Sraffa, 1960] revived the controversy in Ricardian economics. In particular, Sraffa challenged the view that Ricardo's theory of value belongs to the intellectual tradition of Smith and Mill, and that the Ricardian natural price is a cost-of-production price brought about by the interaction of demand and supply in commodity markets. Sraffa also rejected the view that the labor theory of value was a detour from Ricardo's main line of thought, and that later editions of Principles show a weakening of his original conception [Cannan, 1929, p. 176; Hollander, 1904].

The Legacy of Ricardo, edited by Caravale, originated from a seminar held in Perugia, Italy, in May 1981, which sought to assess the current state of the controversy about Ricardo. The volume can be read either as a study of the conflicting views that characterize contemporary Ricardian scholarship or as an assessment of the sources of disagreement over the objective characteristics of Ricardo's work.

II. Demand, Supply, and Dynamic Equilibrium

The study begins with a methodological overview in which Blaug urges reliance on Stigler's rule of textual exegesis; a rule which states that the best interpretation of any past economist permits one to reconcile the maximum number of that economist's main results [Blaug, 1985].

Part II of the book contains neoclassical interpretations of Ricardo. Here, one finds papers critical of the interpretation made by Garegnani [1960, 1981], Pasinetti [1960, 1982], and Sraffa [1951]. In the first paper, Hollander examines the economic organization underlying Ricardian and neoclassical theories. He argues that Ricardian economics—which he associates with both Ricardo and Mill—includes an exchange system fully consistent with marginalist theory. In particular, Ricardian cost-price analysis is discussed in terms of the allocation of scarce resources.
resources in a general equilibrium framework including interdependent factor and commodity markets [Hollander, 1985, p. 19].

A similar view of economic organization is found in Mill’s *Principles* and Walras’ analysis of the cost-price relationship. In the latter, Hollander points out that Walras himself makes use of the Marshallian adjustment mechanism, based on comparison of demand and supply prices; an approach which is in the Smith-Ricardo-Mill tradition [Hollander, 1985, p. 35].

The idea that there is substantial agreement between Ricardo and Say on economic organization is the basis of Hollander’s contention that Ricardo’s work belongs to the intellectual tradition of Smith, Mill, Marshall, and Walras [Hollander, 1985, p. 18]. His interpretation places great emphasis on the allocative dimension of Ricardo’s theory and on the role of the market in bringing about many of the important conclusions of that theory. This point of view is shared by the two following papers authored by Casarosa and Costa.

Casarosa maintains that the fix-wage interpretation of Ricardo (i.e., that the wage rate is constantly at its natural or subsistence level) is incompatible, both with Ricardo’s view that the wage rate remains above its natural level in the process of economic growth and that both the wage and rate of profit fall as the economy approaches the stationary state [Casarosa, 1985, pp. 45-6].

Casarosa interprets Ricardo in the context of a dynamic growth model where the wage rate over time is determined by the contemporaneous interrelationship between population dynamics and the process of capital accumulation [Casarosa, 1985, p. 46]. Thus, there is a general interdependence among economic variables in which the wage rate, rate of profit, rates of population growth and capital growth, are simultaneously determined by the interplay of distribution, population growth, and capital accumulation [Casarosa, 1985, p. 46]. This steady-state growth framework permits Casarosa to argue that Ricardo’s results can best be approximated by assuming that the economy follows a balanced equilibrium growth path in which capital and population change at the same rate. However, this formulation of the Ricardian model yields results incompatible with the natural equilibrium interpretation. Casarosa, however, argues that [1985, p. 57] “the new formulation of the Ricardian system should supersede the traditional one on the ground of its greater explanatory capacity.”

A more extreme departure from the natural equilibrium interpretation is proposed in Costa’s paper. He defines natural equilibrium as a special type of market equilibrium in which the values taken by the initial capital stock and total employment allow equality between the market real wage and natural real wage [Costa, 1985, p. 67]. After presenting a proof of the existence and uniqueness of market equilibrium in a two-sector Ricardian model, Costa shows the stability of the stationary state when this model is formulated in terms of continuous time. A one-sector model is then introduced and its dynamic features compared with those of the two-sector model. The former, unlike the two-sector model, has a tendency to periodic over accumulation of capital and declines in the interest rate [Costa, 1985, p. 61].

Costa’s analysis leads to his contention that the Ricardian growth process cannot be described as a sequence of natural rather than market equilibria, and that this [1985, p. 78] “should imply a shift in emphasis from natural to market equilibrium in the presentation of the Ricardian theory of value and distribution.”

III. Natural Prices and Natural Wage

Parts III and IV of the book deal with issues arising from Sraffa’s interpretation of Ricardo. In the Preface, Caravale suggests

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3This feature is attributed to the existence of unproductive labor in the two-sector but not in the one-sector model.