A Noncombatant's Perspective on Interpretations of David Ricardo's Economics

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1. INTRODUCTION

The remarks that follow will cover some issues related to different interpretations of David Ricardo's economic analysis. The discussion is organized by focusing on Terry Peach's book *Interpreting Ricardo* (Cambridge University Press).

This book originally appeared in 1993, but it received a new lease of life in the form of a paperback reissue in September 2009 (although there was no substantive revision in the 2009 iteration). I read this book nearly 32 years after it appeared, and I came to it among the uninitiated—not being expert at all on David Ricardo. Not only is Ricardo not a research specialty of mine, but, also, I am not steeped in his writings, and I have certainly not read more than a fraction of the famed volumes of collected works of Ricardo edited by Piero Sraffa. Nor had I, until shortly before reading this book, been exposed to the study of Ricardo's economics by Samuel Hollander (1979a) or to the 1980s and 1990s research, or "interpretative literature" as Peach calls it, on Ricardo's economic views.

Peach had, in the years up to 1993, contributed multiple articles to this recent literature on Ricardo. The 1993 book is not, however, a collection of those articles. It is a free-standing book that apparently evolved from his undergraduate, and then Ph.D., research work in the United Kingdom over 1977−1982 (p. xiv), being built upon by his research on Ricardo over the subsequent decade, with some of that body of research taking the form of a critique of recent work by others (including, to a large degree, Hollander). More on both of these elements—the 1977−1982 vintage of the study's origins, and the respects in which the book is a reaction to others' contributions on interpreting Ricardo's economics—below.

What follows are remarks by a noncombatant—that is, someone who is neither a participant nor an aspiring participant in the "interpretative literature." Although Peach's book provides the focus of the discussion, this is not a book review, not only because it is 16 or 32 years too late for that but also because the book is used in the comments below in the same way in which I used the book when reading it—as a means of gaining a window into a larger literature (encompassing both Ricardo's writings and interpretations of those writings). In the discussion that follows, work that appeared on Ricardo both before and after 1993 is referred to, in order to document specific points. But no attempt is made to be comprehensive with regard to either the pre- or post-1993 literature.

2. THE BOOK'S SETUP

The opening chapter of Peach (1993), "Interpretations of David Ricardo," provides background to the reader on number of the prior 35 years' debates on Ricardo's economics—which, as the book's title implies, concerned primarily what that economics was, not its modern-day merits. And, usually, the narrative that follows over subsequent chapters—whose analysis is discussed below—is absorbing, even though it sometimes involves examining incremental additions to Ricardo's statements on a subject. To readers who find Peach's work here engaging, it is a good jumping-off point that will help galvanize many of them into reading Ricardo's work at greater length and familiarizing themselves with journal articles and others' books on Ricardo.

3. THE BOOK'S NEGATIVE PICTURE OF RICARDO AND RICARDO'S ANALYSIS

At this point, it is appropriate to relay a serious reservation about a feature of the book. This is its pejorative attitude toward Ricardo and his quality as an economic analyst. That feature makes it less suitable than it would otherwise be to serve as an account, for the uninitiated, of the research debate on Ricardo's positions. As already indicated, there is no doubt that one benefits from reading Peach's book. It is a highly readable guide to, and perspective on, that debate, in addition to being highly informative about Ricardo's writings. But it is also a reasonable postulate that, after digesting the initial chapters, most readers will be struck by the dearth of praise for Ricardo and the drumbeat of criticism of Ricardo. Proceeding to read the rest of the book strongly reinforces this impression.

It would seem that the author has acquired a highly negative perspective on Ricardo and his economics (including on the matter of whether that economics possessed coherence). This perspective materially bears on the tenor of the discussion in the whole book. After reading the book, it is difficult to isolate a single instance in which the author says that Ricardo was a great economist or even a good one. "This is not Ricardo at his best," Peach states about two-thirds through the work (p. 217). The remark just quoted has no counterpart in instances in which praise is offered: in particular, neither before nor after making this remark does Peach point explicitly to passages in which Ricardo was at his best.

Even as a personality, the portrait given of Ricardo is hardly flattering, with descriptions that Ricardo gave of himself as lazy taken as being factual (and reinforced by Peach's own negative remarks), rather than being viewed as a form of self-depreciation and a means by which Ricardo motivated himself. In contrast, William Baumol and Alan Blinder's textbook *Economics: Principles and Policy* (third edition, 1985) observed in their biographical note on Ricardo (p. 733): "He seems to have been a wholly admirable person." Incidentally, anyone who is inclined to discount Baumol and Blinder's statement by suggesting that it was a casual textbook remark (rather than an expert judgment) should pause to consider that Baumol was sufficiently steeped in Ricardo's economics to contribute a chapter on the topic (Baumol, 2001) to a volume dedicated to Ricardo specialist Samuel Hollander, while Blinder was a graduate student at MIT in the late 1960s and early 1970s, and so he was at close hand in the U.S. end of the Cambridge/Cambridge exchanges—what Peach in a 1988 paper called "the 'capital controversy' of the 1960s and early 1970s" (p. 104)—in which Ricardo's works figured prominently.

Specifically on the matter of Ricardo's writings and analysis, Peach is too trigger-happy in attributing to Ricardo incoherence, inconsistency, ideological motives, and stubbornness. On one occasion (1993, p. 284), he refers to "Ricardo's pathbreaking work in the field"—but it turns out that Peach is being sarcastic. Elsewhere, he states that "it must be said" that specific passages in Ricardo's work "reflect little credit on him" (p. 239), but Peach evidently feels that there is no corresponding obligation whereby "it must be said" that passages in the same body of writings do Ricardo credit. In fact, he very, very rarely has a good word to say about Ricardo. So, for example, Ricardo's correspondent and critic, Thomas Malthus is said to have "exposed… with consummate skill" faults in Ricardo's work (p. 238) and "demonstrated … with clinical precision" (p. 204) those problems. Elsewhere, we are told that "Malthus has inflicted a stunning blow" (p. 211) and that Ricardo's errors were "brilliantly exposed by Malthus" (p300). Ricardo's analytical skills are correspondingly cast in doubt, Ricardo being described as in "bewilderment" (p. 211).

As part of his negative portrait of Ricardo, Peach greatly overstates the extent to which Ricardo's economics is shunned, and his contributions discounted, in mainstream modern economics. He suggests that it is the case that Ricardo's orientation toward theory is "often… his only redeeming feature in the eyes of 'mainstream' economists" (p. 297). The impression conveyed is therefore that the actual content of Ricardo's economic analysis has been rejected.

This impression is underlined by the fact that Peach does not cover Ricardo's propounding of the notion of comparative advantage. To be sure, Peach provides extensive analysis of Ricardo's views on international trade, including his position that free trade would raise a country's consumption and output (p. 102). In fact, in an apparent oversight, the same quotation of Ricardo to the effect that increased trade restriction lowers profits in the importing country is analyzed twice by Peach, in fairly rapid succession (pp. 57, 97). But comparative advantage itself does not receive appreciable coverage.

That omission is reasonable in light of the fact that it is the dynamics of domestic production, incomes, prices, and inputs, rather than the comparative-advantage work by Ricardo, that is the concern of much of the literature that has argued over Ricardo's views. That said, it is clearly the case that comparative advantage is an area in which Ricardo's writings have been absorbed strongly into mainstream economics. In addition, after his chapter 2, Peach has little coverage of monetary matters, on which Ricardo contributed importantly.

There is a far more receptive attitude toward Ricardo in the mainstream of economics than is implied by Peach's remarks. As indicated, this is most obvious in the case of international trade: for example, Paul Samuelson remarked in 1972, "Ricardo laid the foundations for the theory of international trade—I'm referring now, of course, to his famous doctrine of comparative costs or comparative advantage" (Instructional Dynamics Economics Cassette Paul Samuelson series Tape 101 (Paul Samuelson series), May 8, 1972)*,* while in their microeconomics textbook, Fischer, Dornbusch, and Schmalansee (1988, p. 416) observed that "[in] showing the gains from trade when there are international differences in the available techniques or production that lead to differences and costs," they would " use a model first presented by the great English economist David Ricardo." The mainstream acceptance of Ricardo's work spans beyond trade, however, as is evidenced by Parkin's (1996, p. 904) statement: "Ricardo made important contributions to explaining a host of economic problems and issues, ranging from the value of money and the theory of value, exchange, and international trade." Similarly, Baumol and Blinder (1985), having correctly noted (pp. 672−673) that, indeed, "much of Ricardo's work has been rendered obsolete by the passage of almost 200 years," observed (p. 733): "His [*Principles*] book made considerable contributions to the analysis of pricing, wage determination, and the effects of various types of taxes, among many other subjects."

An occasion on which Peach does grant insight to Ricardo should be noted. This is on page 49: "Ricardo's early awareness of the 'diminishing returns' hypothesis is beyond dispute." This, too, is an area in which the economics profession as a whole widely credits Ricardo's contribution. For example, G.L. Bach (1977, p. 277) referred to "Ricardo's famous 'law of diminishing returns.'"

3. MACROECONOMICS AND PRICE STICKINESS

Still on the topic of modern analysis: The author's perspective on macroeconomics is divergent, in a flawed manner, from what was by 1993, and remains today, the professional consensus.

Peach's book has a dated perspective on monetary and macroeconomic relationships that likely in part reflects the project's aforementioned origins in 1977−1982 U.K. academia. This was an era in which academic economists in the United Kingdom remained resistant to natural-rate and monetary-neutrality notions that had become the consensus in U.S. academia and that from 1979 onward were firmly embedded in U.K. and U.S. macroeconomic policymaking and remain widely accepted today.

Peach was evidently imbued with the anti-natural-rate thinking that was the majority view in U.K. academia over this period. Consistent with this, in 1981, Peach was one of the 364 signatories to an economists' statement in opposition to the Thatcher Government's economic policies.[1] This statement included the remark: "there is no basis in economic theory or supporting evidence for the Government's belief that by deflating demand they will bring inflation permanently under control and thereby induce an automatic recovery in output and employment." That statement is not correct—not least in its references to "no basis in economic theory or supporting evidence"—and the "belief" criticized had in 1981, and has today, backing in the natural rate hypothesis and earlier monetary-neutrality postulates. The 1981 economists' statement was conveying the majority U.K. view of the time accurately: Until the mid-1980s, the U.K. researcher consensus was different from that in the United States, in the sense that there continued to be very considerable resistance to the idea that the economy converged over time to full employment and to the notion that, although monetary policy had effects on real output and employment in the short run, these tended to dissipate in the longer run. This majority U.K. academic viewpoint was, however, superseded within a few years of the early 1980s by very heavy acceptance of the natural rate hypothesis.

Nevertheless, even in his 1993 book Peach's discussion seems to have been premised on anti-natural-rate views. Still more problematically, one could infer from his book that he apparently regards economists who argue for natural-rate ideas as lacking logic or integrity. Peach's commentary on Ricardo seems to reflect a conviction that to contend (as Ricardo did) that monetary neutrality asserts itself over time amounts to an incoherent or ideological position.

[1] See https://archive.margaretthatcher.org/doc02/FECEBF1EA893413EB9D3FA246218F30A.pdf.

Peach seems to view Ricardo's belief in the coexistence of non-neutrality of money in the short run and long-run neutrality of money, and his associated belief in the convergence of the economy to full employment, as corresponding to ideological or illogical positions that deserve condemnation. For example, on page 42, he characterizes Ricardo's belief in a lag between changes in the money stock and in the price level as amounting to prevarication, and on pages 133 to 136 Peach takes Ricardo's appeal to price stickiness as a reason for the gradual adjustment of the economy to demand developments to be *ad hoc* bluster and as flowing from a pro-*laissez-faire* posture on his part. On pages 140−141, he seems to portray as an extreme position the contention that the economy has "equilibrium tendencies" and that periods of economic slack are "in the end… ephemeral departures" from full employment (p. 141), and he portrays this position as a corollary of "*laissez-faire*" views (p. 140).

But natural-rate and monetary-neutrality ideas, underpinned by a belief in short-run price stickiness, have antecedents in prior work by economists (notably David Hume) and remain mainstream today. In fact, in 1993, in the same year in which Peach's book appeared, the Carnegie-Rochester Conference series held (in November) a conference in which Laurence Ball and Gregory Mankiw presented a paper, "A Sticky-Price Manifesto," in which they noted (p. 127): "Those who believe in sticky prices are part of a long tradition in macroeconomics… [I]t dates back at least to David Hume." In his discussion of classical economists' belief in short-run monetary non-neutrality, Humphrey (1991) included Ricardo among those who adhered to this belief, but he stopped short of saying that Ricardo's basis for this belief was price stickiness. The quotations that Peach describes (and unjustly criticizes), as well as the Ricardo passages highlighted in Hollander (1979a; 1995, p. 96), confirm, however, that Ricardo was one of the classical economists who were part of the sticky-price tradition described by Ball and Mankiw (1994). For having propounded such ideas, Ricardo should be regarded as anticipating the mainstream of the modern consensus—and not as prevaricating or being an ideologue.

Two other statements by Peach on monetary matters also warrant correction. First, on page 45, Peach points to a Ricardo statement that the initial level of real output corresponds also to the output value prevailing after the price level has undergone a rise. Peach takes this statement as implying a belief that monetary changes have no short-run effect on output. This inference conflates propositions concerning a higher price level with propositions concerning a higher money stock. There is no inconsistency between a higher money stock stimulating output in the short run, and output being back to its original level in the long run after prices have fully adjusted to the presence of a higher money stock. Second, on page 229, Peach seemingly misconceives a Ricardo statement that the real values of variables are what ultimately matter for economic welfare as signifying a lack of interest in the process of the determination of nominal variables. But the notion that output, consumption, and productivity are ultimately independent of the absolute level of prices is an uncontroversial one, and it does not preclude an interest in nominal dynamics, nor a denial of the possibility that high and variable inflation can be damaging to these real variables, which are (among aggregate economic series) indeed the variables that bear centrally on economic welfare.

4. THE LABOR THEORY OF VALUE

The two lengthy chapters (4 and 5) of *Interpreting Ricardo* on the labor theory of value ably take us through Ricardo's views on the matter and the evolution of them. The inference that Peach makes about the merits of Ricardo's theory seems, however, to be overly negative. The discussion conveys the impression that Ricardo was fundamentally misguided in postulating that there was a proportional relationship between producers' labor expenditures and the value (price) of the good. The message is relayed that Ricardo's views on the matter were poorly thought out and that he was stubborn in adhering to them. As have other analysts, Peach grants that Ricardo was in practice willing to concede that there were numerous reasons for believing that a strict proportionality between labor costs and prices would not hold in the aggregate data (see pp. 161, 232, 291). Those concessions are, however, portrayed as a piecemeal recognition of deviations from the labor theory. It is also evidently the case that Ricardo regarded the labor theory of value as a reasonable empirical approximation in the presence of the acknowledged deviations from the assumptions underlying the theory. This Ricardo position is presented by Peach as "mere assertion" (p. 208).

By designating as assertions what Ricardo advanced as empirical approximations, and by giving high praise to Malthus' criticism of Ricardo on the matter of the labor theory of value, the book's analysis seems to imply that Ricardo's views in this area were totally discredited. This message is reinforced by the fact that the discussion does not compare Ricardo's views with modern-day (as of the early 1990s) mainstream economic perspectives. In fact, there is considerable backing in empirical and analytical modeling of inflation in the notion that expenditures on labor are proportional to product prices. This backing has taken the form of empirical work—abundant and several decades old by the time of Peach's book—but has later been supplemented by contributions to the New Keynesian literature like Galí and Gertler (1999) and Sbordone (2002). This work maps prices to unit labor costs. Macroeconomic research, especially its econometric dimension, has also heavily used percentage-change versions of the unit-labor-cost/price relationship (see, for example, Evans, 1983, pp. 248−249). This orientation is in line with

Ricardo's emphasis, highlighted by Peach (p. 231), on the rate-of-change aspect of the cost/price relationship.

It is true that the term "labor theory of value" (as well as the term "value theory" to describe price theory or portions of microeconomics) lies largely outside modern mainstream economics. This is because it is strongly associated with Marxist notions that the fact that income streams flowing from the sale of a good do not all go to the labor input amounts to sound evidence that laborers are unduly deprived of income. This notion is certainly rejected by standard economic analysis. But it is separate from, and not implied by, the proposition that Ricardo put forward that labor costs have a proportional relationship with prices. This latter proposition, as noted, does have considerable modern-day support.

5. CONSISTENCY OF RICARDO'S ANALYTICAL FRAMEWORK

Very unreasonably, in my view, Peach apparently takes the absence of a written-down system of simultaneous equations in Ricardo's writings capturing his view of output, wage, price, and input determination as decisive evidence that Ricardo lacked a logically consistent macroeconomic model governing his thinking. One can accept his "warning not to *presume* consistency on Ricardo's part" (p. 83) (and, especially, allow for a "start-up" period during which Ricardo's views were in flux and before they crystalized) and not accept statements such as the one that "Ricardo did not even attempt to develop" a general-equilibrium or macroeconomic-model analysis (p. 282). Even purely verbal analyses can relay models, and even more modern-day economists, who often used models in their work, may well have regarded their own *general* model as unwritten but implicit in the totality of their writings. Milton Friedman and Paul Samuelson, for example, both took this stance (see Nelson, 2020, Chapters 4 and 5).

Ricardo's allegedly chronic tendency toward inconsistency, along with the consequent incoherence of his body of writings, has a central place in Peach's book, with Ricardo described as "capable of quite startling inconsistencies" (p. xiii) and it being stated that "his textbook reputation as a master of overall theoretical consistency stands in need of correction" (p. 131). Most significant is Peach's remark (p. 68): "My interpretation is not one which has Ricardo constructing, or relying upon, a logically consistent model, but I do not regard this as a weakness: there is no evidence that there was such a model." As Kurz (2000, p. 178) very accurately remarked of the first part of this sentence, "it may not be a weakness, [but] neither can it be regarded as a strength." Furthermore, the second part of the sentence—stating that "there is no evidence"—is factually incorrect, as the passage (like the 1981 U.K. economists' statement that Peach co-signed) invalidly refers to there being "no" evidence what is really meant that the writer disagrees with the evidence (including the interpretation of the materials considered) provided by other researchers.

With respect to others' evidence, Peach concentrates much of his analysis on the work of Samuel Hollander, discussed later. Peach also writes critically of a book by Morishima (1989) that endeavored to infer a general-equilibrium model from Ricardo's verbal discussions. Peach makes good points about how Morishima's effort to do so did not use good practice. In particular, he is correct to criticize Morishima for using Ricardo's principles book but not drawing on other Ricardo statements. On the whole, I am persuaded by Peach's argument that Morishima likely did not actually deduce correctly Ricardo's own model. But I am far less sympathetic with the statement (p. 284): "Professor Morishima merely presents yet another reassembly of theoretical bits and pieces which he then combines to form a general equilibrium system. His cardinal error … is in thinking that [this] belongs to Ricardo." The practice described would certainly be in error if the "bits and pieces" were unrepresentative, or insufficiently representative, of Ricardo's overall writings, and if they really did not fit together into a coherent picture. But the notion that an implicit model that can be drawn from an economists' (or economic policymakers') verbal statements is a mainstream one: It should not be construed as inherently being an erroneous procedure. The procedure of reconstructing or inferring an individual's implicit model on the basis of scattered statements by an individual is therefore not something to be deplored. I have done this myself in the case of Milton Friedman's economic framework (see Nelson, 2020, Chapters 5 to 9). Agreement on this being a valid procedure in principle is perfectly consistent with taking issue (on specified grounds) with any particular reconstruction.

There is also the matter of what the appropriate researcher response is when, as occurs almost inevitably, inconsistencies do emerge in the writings of an individual. The example of some major economists' treatment of Keynes is useful here. In contrast to Peach's position, in which an economist's inconsistencies are seen as clinching evidence of their not having a general model, there is Paul Samuelson's (1971, p. 11) observation: "When an author writes as much as did Keynes, it is inevitable that certain of his passages might seem to contradict others." Consistent with the existence of these passages and with Samuelson's position that Keynes had a consistent implicit model, was Patinkin's (1982, p. 17) suggestion that the analyst of the writings of a key economist should view themselves as fitting a regression that provides the best description of the aggregate body of statements and should be aware that there will be some data points that are associated with large residuals (deviations from the line). Although applied by him primarily to the analysis of Keynes, Patinkin's outlook seems the appropriate one to use with regard to Ricardo, too. In this connection, it is notable that Patinkin's former student Stanley Fischer once wrote (see Fischer, Dornbusch, and Schmalansee, 1988, p. 416): "Ricardo was a pioneer in the careful development of economic models; he stated his assumptions clearly and deduced their consequences rigorously." And interestingly, though not citing Patinkin on the matter, Samuel Hollander in his 1995 book *Ricardo—The New View* took much the same perspective as Patinkin, noting that a "reading which captures the main theoretical conclusion inevitably leaves… residuals" (p. 9). The existence of residuals of this kind is not decisive evidence against an economist having a logically consistent model. Peach himself quotes Ricardo as stating that he had "a very consistent theory in my own mind" (1993, p. 173).

6. SIMULTANEITY IN RICARDO'S ECONOMIC SYSTEM

In a critical analysis of the aforementioned work on Ricardo by Hollander (1979a), O'Brien (1981, p. 385) drew a distinction between "all the work that has been done to make sense of Ricardo" and "reinterpret[ing] Ricardo in a kind of loose general equilibrium framework." O'Brien asserts that "one of the key features of general equilibrium—which renders it virtually useless—is that it results in a model of complete generality in which virtually anything can happen." This is not actually a key feature of general-equilibrium analysis, and, insofar as pre-1979 work on Ricardo rejected a general-equilibrium interpretation on these grounds, it did so on misguided premises. And if it was the case that, as O'Brien suggested, it is "one-way models [of causation] with which he is normally associated" (1981, p. 359) in that pre-1979 literature on Ricardo, then that era's characterization of Ricardo's economics in effect produced a very stilted, unflattering, and unsophisticated picture of Ricardo's thinking.

Economists are, essentially, missing their calling if they treat the state of affairs as one of single-direction causation between such fundamentally endogenous variables as prices and wages or prices and output. Of course, under a pure cost-push perspective on inflation, prices or wages might be regarded as exogenous variables—but Ricardo did not subscribe to this position, once he had developed his monetary analysis (see Peach's pp. 4, 49, 54, 132, and Hollander, 1979a, pp 118, pp. 177−179, 185). And in a system in which prices and wages are treated as endogenous, output should be treated as jointly determined with them.

Insofar as analysis of Ricardo and other economists before 1979 largely insisted on seeing things in terms of one-way causation between such variables, it is easy to accept Hollander's (1979b, p. 24) suggestion that much "sham controversy" proceeded on the premise that a key question was whether a particular economist of the past believed in *X*-to-*Y* causation instead of *Y*-to-*X* causation. In fact, of course, in a two- (or larger) equation model, it is perfectly admissible for variables *X* and *Y* to cause each other (or better, to view both series as jointly driven by exogenous shocks). Samuelson's (1947, p. 9) statement is fully applicable to classical economics and to later brands of economics: "Within the framework of any system the relationships between our variables are strictly those of mutual interdependence. It is sterile and misleading to speak of one variable as causing or determining another. Once the conditions of equilibrium are imposed, all variables are simultaneously determined."

Peach's book is critical of others' work that applies general-equilibrium reasoning to Ricardo. As already indicated, however, part of his criticism reflects his over-demanding criterion that an explicit set of equations should have been laid out by an economist in order for that author to be described as having a simultaneous-equation or general-equilibrium model. Peach cites (p. 37) Leon Walras as having criticized Ricardo for not treating the economic system as simultaneous. But Walras may have misconstrued Ricardo's work, and, furthermore, Walras seems to have regarded general-equilibrium analysis as synonymous with highly disaggregated models. By that definition of general equilibrium, Walras may have been correct that Ricardo's system was not general equilibrium, as it concentrated on only a few key aggregates and sectors. Failing to meet the Walras definition of general equilibrium does not preclude the possibility that Ricardo's analysis was tantamount to an internally consistent, simultaneous-equation macroeconomic model. Similarly, whereas Peach sees (p. 278) Ricardo's description of productive services as "regulators as value" as implying one-way causation between the two series, it is perfectly possible in a simultaneous-equation system to describe prices as driven or regulated by other variables in the system (for example, prices might have a markup relationship with costs) without insisting on one-way causation from the latter variables to prices.

Furthermore, Miller and Upton (1974, p. 6) argued that Thomas Malthus' model of economic growth had, at a minimum, output and labor input as simultaneously determined variables. By general agreement, Ricardo's perception of the growth process overlapped considerably with Malthus'. It follows simply from this overlap of the Malthus and Ricardo frameworks that Ricardo's equation system must have been a simultaneous one. Peach's contention that it is misguided "to credit Ricardo with a (form of) general equilibrium analysis" (p. 277) appears untenable, as does (when viewed as a statement about the totality of Ricardo's work) the position taken by Peach that "all the interdependencies which Professor Hollander regards as so important are nowhere to be found… there is no 'interplay' between product and 'factor' markets" (pp.

282–283). The presumption that economists should be attributed a belief in simultaneity, rather than in one-way causation, seems to be well borne out in the case of Ricardo.

7. NEOCLASSICAL LINKAGES

Peach states (p. xii) that "Ricardo's work has little in common with later 'neoclassical' theory." But he tends to emphasize differences even when Ricardo foreshadowed neoclassical results. For example, Peach establishes the following positions about Ricardo: (*i*) He believed that the natural or longer-run price (a concept discussed further below) of a product was linked to long-run production cost (with the cost including profits) (see, for example, Peach's pp. 189, 243). (*ii*) He postulated there was a compatibility between viewing prices in terms of cost and viewing prices in terms of utility. (iii) He contended that it was invalid to measure a price as directly equal to or in proportion to the utility received on the good (see Peach's pp. 248–249). All three of these positions are backed up by neoclassical economics as embedded in modern economic analysis. Yet position (i) (though it is a correct position) is presented as though it is a discredited stance—in part because Peach notes that neoclassical analysis connects relative prices to marginal utilities but gives the impression (p. 249) that this result is *to the exclusion of* a relationship between relative prices and relative production costs. In fact, the latter relationship also holds in neoclassical analysis. Position (ii) (again, a correct position) is taken by Peach as evidence of Ricardo not understanding the work of those who emphasized utility (pp. 274–275). Position (iii) (still another correct position) is characterized as a mistake on Ricardo's part.

No doubt, neoclassical analysis largely superseded Ricardo's analysis on many fronts. It seems, however, that Ricardo had the correct intuition with regard to what became several important neoclassical results regarding the pricing of goods and production inputs. Furthermore, it is likely that several of the key innovations of neoclassical analysis—although not in Ricardo's framework—did not have adverse implications for the validity of his framework and could be regarded as items that could be straightforwardly added to it.

In criticizing Samuel Hollander for stressing linkages between Ricardo and neoclassical economics, Peach states (p. 296): "Professor Hollander has convinced himself that Ricardo's work is in the Marshallian tradition." I think this attribution is something that needs a direct quotation and page reference. It may be that Hollander specifically said that "Ricardo's work is in the Marshallian tradition," but it seems more likely that, instead, Hollander suggested (reasonably so) that Ricardo had views that were largely compatible with Marshallian or neoclassical economics in many respects—being a forerunner or some important elements and having a framework that had little or no conflict with some other major elements. This is actually a view that Alfred Marshall himself endorsed, as Peach notes (pp. 261, 302). This position is not the same thing as saying that Ricardo was in the Marshallian tradition, because that way of putting the matter suggests that Marshall's work came first (which it did not) or that it was anticipated in full by Ricardo (which is not what Samuel Hollander has claimed, to my knowledge).

Marginal utility is a key concept in neoclassical economics, and a widespread perception (for example, Friedman, 1976, p. 36) was that Ricardo did not grasp the distinction between marginal utility and total utility. As it happens, this is not a Peach criticism of Ricardo. Peach grants that Ricardo did understand the concept of marginal utility: what Ricardo lacked was the concept of diminishing marginal utility (pp. 242, 249, 285), another important facet of neoclassical economics. Also on this matter, Peach remarks (p. 247): "As for Samuel Hollander, he avers that the 'distinction between total and marginal utility and the conception of diminishing marginal utility could easily have been accommodated' by Ricardo, as if this excuses the absence of a developed utility analysis." I do not view this Hollander statement as an attempt to excuse Ricardo. Rather, it is arguing that Ricardo's economic system could be modified straightforwardly to allow for the concept of diminishing marginal utility. In parallel with this, it is valid to argue that the 1970s-vintage refinements of the theory of monopolistic competition could be appended to Milton Friedman's economic framework (largely developed by the early 1950s), without attributing to Friedman knowledge of those refinements.

Peach also blasts Ricardo for analyzing actual producers on the assumption that they maximize profits (which Peach incorrectly describes as an "assumption of perfect knowledge"—p. 142). This criticism clashes with Peach's position that Ricardo's economics had little in common with neoclassical analysis. Furthermore, Peach's implication that Ricardo was off-base in applying the assumption to actual producer behavior contrasts with the dictum of Henry Wallich: "In fact, the only way in which you can reach definite conclusions about what a firm is going to do is to assume that it maximizes profits."[2]

One other matter is terminology. Peach refers to "Hollander's favored 'neoclassical' terminology" (p. 283), as though applying the economic language of later eras to Ricardo's economics is untoward. This echoes a criticism of Hollander by another analyst, Peter Groenewegen, who referred to "Hollander's 'vice' of substituting modern terminology for

[2] Testimony of February 6, 1976, in Committee on the Budget, U.S. House of Representatives (1976, pp. 411–412).

classical language" (Groenewegen, 1986, p. 320).[3] It is not clear, however, that one should be straitjacketed into using only terms prevalent as of the 1800s in discussing the economic analysis of that era.

Furthermore, there is an inconsistency here. Peach, perhaps sometimes unwittingly, freely deploys phrases and terms in the English language that were not in use in Ricardo's day to describe Ricardo's actions, writings, and motivations. For example, Peach (1990, p. 763) remarked: "Ricardo *did* take on board the Malthusian view of secularly declining real wages." The practice of using "take on board" to mean "absorb" or "assimilate" only came into effect in the late 1970s. Similarly, the word "scenario" to describe a hypothetical sequence of events only entered economics regularly in about 1970 (see Nelson, 2024, Chapter 6), but Peach in his book twice uses it to describe Ricardo's invocation of examples (1993, pp. 48, 178). Peach also refers to "Ricardo's ambition to bring Say 'on side'" (p. 277).[4] Clearly, in some respects Peach has not adhered to his own stricture to confine Ricardo to his era, as represented by the book's closing words, "Leave him within his own surroundings" (p. 303).

8. REAL WAGES AND SAMUEL HOLLANDER'S ANALYSIS

Peach makes numerous critical remarks on two sets of interpretations of Ricardo: that of the Sraffians and of Samuel Hollander. With regard to the former, Peach refers to the "distorting influence of the Sraffians" (p. 295), particularly with regard to what they inferred Ricardo's model to be. Nevertheless, because he is limited in his criticism of Sraffa himself and because there is a lengthy intermission between the main criticisms of the Sraffians in the book, the negative remarks on Ricardo and Hollander stand out more.

The amount of criticism of Hollander is heavy: Peach's remarks include "on many central issues it is my conviction that Professor Hollander's view of Ricardo is radically flawed" (p. ix) and "There is scant evident to support Samuel Hollander's suggestion" (p. 83). Elsewhere, there are references to "Hollander's attempts to 'rewrite' Ricardo's treatment" (p. 280) and "Hollander's

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[3] Groenewegen nevertheless essentially exercised this practice himself when he contended that "only in the area of monetary policy was Marshall directly and demonstrably indebted to Ricardo's opinions" (Groenewegen, 2003, pp. 34–35). The term "monetary policy" was hardly common in Ricardo's and Marshall's writings.

[4] A minor misquotation of Ricardo also inadvertently modernizes Ricardo's wording, changing "whilst" to "while" (p. 228). Other misquotations are "constituted cloth" being given as "constitute a cloth" (p. 236) and "commenting" being rendered by Peach as "commentating" (p. 272). In addition, a couple of sentences that appeared in a letter by Malthus are omitted (without ellipsis points) from a quotation given on page 77. Typographical errors are very rare in the book, although "comprises" should be "is comprised of" on page 61 and "comprise wholly" should be "be comprised wholly of" on page 71, while on p. 301, "youthful hero" should be "hero as a youth."

wishful thinking" (p. 282), while the reader is told that "[Hollander's] inversion of reality has become quite astonishing" (p. 282), and the paperback back cover text (possibly not written by Peach) alleges that "Ricardo's work has been persistently, and sometimes willfully, misinterpreted."

Hollander has advocated a "new view" of Ricardo. A key feature of this view, and what is focused on below, is highlighted by Peach (p. 284): "Hollander's [reconstruction is] based on the notion that the [real] wage is an endogenous variable." Peach instead emphasizes Ricardo's "use of 'fixwage' analysis" (p. 49), and even Ricardo's "commitment to a 'fixwage' analysis" (p. 280), and so sees Ricardo as preferring to take the real wage as fixed or given (p. 125).

Yet even Mark Blaug—a definite supporter of Peach in his debate with Hollander—noted (1988, p. 133): "Ricardo does *not* take the real wage as a datum in his analysis." In his book, Peach likewise states, "I accept that his writings *do* contain evidence … in favor of the 'new view' interpretation" (p. xii) and "The presence of new-view material in Ricardo's writings is indisputable" (p. 297; see also pp. 87, 103, 110, 130, 131, 279–280). Peach takes this material as evidence of Ricardo's inconsistency and lack of a coherent model, and he argues that a fixed real wage was Ricardo's central stance (p. 283).

With Ricardo having, by general agreement, treated real wages as endogenous in much of his work, it may well be that instances in which he treated real wages as fixed amounted to *ceteris paribus* analysis and did not indicate a conviction that this fundamentally endogenous variable was insensitive to real economic factors (and to monetary developments in the short run). Notable here is Alfred Marshall's admonition that one should interpret Ricardo's work in light of the fact that he did not have access to the "language of the differential calculus" (quoted in Hollander, 1995, p. 178). Marshall's mention of this point was in reference to Ricardo's discussion of utility. But it also bears on the issue of whether Ricardo had a baseline assumption of a constant real wage. Differential calculus allows the usage of partial derivatives: a way of holding an endogenous variable constant without contending that the variable is exogenous or unconditionally fixed. Holding the real wage constant when gleaning how other variables are related to it is not the same thing as assuming that the real wage is constant or exogenous in the face of shocks or economic developments. Ricardo's usage of constant-real-wage settings may be largely interpretable in this light, and that appears to have been Hollander's interpretation. It seems unlikely that Ricardo believed in a "fixwage" world in which the real wage did not respond to other variables.

Furthermore, some of Peach's claims about the pervasiveness of Ricardo's "assumption of a given real wage" (p. 46) appear not to be well taken. For example, on pages 45 to 46 he takes Ricardo's statement that the real wage is the same before and after a rise in the money stock as implying that "the given real wage assumption is made explicitly" (p. 45). Peach seems to be misconstruing a statement that monetary neutrality holds in the long run (including in the case of the real wage) as an assumption of an unconditionally constant real wage.

9. DETERMINATION OF NATURAL PRICES

A major message of Peach's book is that, with regard to natural or longer-run prices of products, Ricardo did not believe that demand entered into price determination (p. 65) and so did not advance or endorse a demand-and-supply rationalization of the level of natural prices (p. 291). Peach claims (pp. 248–249) that, instead, Ricardo let only supply matter for the natural price. Ricardo, Peach suggests, allowed demand and supply to have a bearing on the dynamics of prices around their longer-run value, but did not see both factors affecting the longer-run value itself: "he remained adamant that neither market processes, nor the proportions between the amounts supplied and demanded, nor the amounts themselves, could account for the determination of natural price levels and their movements" (p. 261). The implication, of course, is that this alleged feature of Ricardo's economic analysis separates him from sound work of both contemporary and later economists: Ricardo "refused to acknowledge that changes in the amount demanded, and hence supplied, were in any way causally responsible for natural price movements" (p. 258; see also p. 292).

As on the issue of wages, in the case of natural prices Samuel Hollander is taken to task for attributing to Ricardo greater endogeneity of prices than Peach believes is appropriately associated with Ricardo. Hollander contends that demand and supply both matter for the natural price in Ricardo's framework (see, for example, Hollander, 1979a, pp. 282–283).

Peach argues that, apart from Hollander and Alfred Marshall, there is "unanimity that Ricardo eschewed 'supply and demand,' in any form, when it came to the determination of the natural price levels" (1993, p. 35). As will be discussed shortly, there are actually other writers who have taken the same position as Hollander and Marshall.

With respect to Marshall, Peach contends that Marshall tried "to excuse Ricardo's many statements that (changes in) natural prices depend on (changes in) supply conditions alone" (p. 302) by looking for a case in which the cost of production was constant. But the actual passage in Marshall (quoted on pages 261 to 262) does not seem to challenge Ricardo's notion that the natural price is governed by the cost of production even in more general conditions than this. As already indicated, Ricardo's postulated link between prices and costs of production is not out of step with Marshall's economics or with modern economic analysis. It would be so only if Ricardo indeed claimed that production cost was sensitive to supply but not also to demand.

Peach claims (p. 257) that Ricardo did indeed believe that a cost-based explanation of prices was to the exclusion of a demand-and-supply analysis: "As for the determination of the *natural* price levels of … commodities, Ricardo was convinced that 'demand and supply' influences, as he understood them, were irrelevant… with Ricardo arguing that natural prices are determined by conditions of production (as reflected in costs of production)." But cost-based and demand-and-supply-based approaches to price analysis can be compatible. And, contrary to Peach's contention, there are more than two writers who have viewed natural wages and natural prices as responsive to both demand and supply in Ricardo's framework. One example was Rankin (1980, pp. 258–259) who saw Ricardo's cost-of-production approach as allowing fully for demand to influence long-run relative prices. Earlier, Howard D. Marshall (1967, p. 81) stated: "Although Ricardo devoted little of his analysis to the role of demand in determining value, nevertheless it was important [in his framework]." And Baumol and Blinder (1985, p. 675) described Ricardo's framework as one in which "incentives for capital accumulation increase the demand for labor and lead wages to be bid up by the forces of supply and demand."

Peach takes Malthus but not Ricardo as believing that demand and supply both matter for the determination of natural prices (p. 259). But Peach also suggests that Ricardo viewed his own cost-based approach to price determination as isomorphic to Malthus' demand/supply approach (p. 260). As the conjecture that demand/supply and cost-based analyses of prices is backed up by modern analysis and so is essentially correct, it does not seem to deserve the discounting that Peach seems to give it (this discounting taking the form of notching the Ricardo conjecture up as another case of Ricardo being confused). It is also noteworthy that Ricardo stated that it was "not that I know of disputed by any body" that the relationship between demand and supply determines natural prices (quoted in Hollander, 1995, p. 179).

Finally, although Peach presents Ricardo's *Principles* Chapter XXX, "On the Influence of Demand and Supply on Prices," as having denied an influence of demand on natural prices, its opening paragraphs can be interpreted as simply saying that a necessary condition for this influence is having an effect on the cost of production. That is, the cost of production provides a sufficient statistic with regard to how demand and supply matter for price behavior. This brief chapter also specifically makes mention of the case of a (nominal) demand increase—the value of money falling, that is, an increase in monetary demand *vis-a-vis* output—as a factor that would raise the (nominal) natural price of a good by raising its production cost (Ricardo, 1951−1973, I, p. 383).

10. CONCLUSION

To sum up: I benefited from Peach's expertise on Ricardo but was surprised by the degree to which a book written in 1993, and largely analyzing writings of the 1800s, seemed so closely tied to the perspective prevalent in the 1977−1982 era of U.K academia in which it originated. This perspective seemingly partly underpins the negative verdict on Ricardo, particularly on monetary and macroeconomic matters. Ricardo's beliefs in long-run monetary neutrality and profit maximization hardly seem grounds on which to criticize him as a stubborn ideologue, but they may have seemed so in the anti-natural-rate atmosphere, and environment of strong suspicion of market forces, pervasive in U.K. academic economic circles in the late 1970s. And attributing to classical economists a subscription to one-way causal mechanisms, instead of a belief in the simultaneous determination of variables, may have seemed a natural assumption on the basis of the orthodox view in the literature on Ricardo through the late 1970s. But it would surely be jarring to the wider economic profession, to which it is second nature to view economics as involving the joint determination of variables. An attribution of a belief in single-direction causation also seems to associate too simple-minded and mechanical a position with Ricardo and other economists of his era.

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