Sraffa and the making of the modern theory of income distribution

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Abstract:

In this paper we attempt to show how Piero Sraffa brought about a fundamental change in the theory of income distribution. The surplus principle of distribution, which has been “submerged and forgotten since the advent of the marginal method” (Sraffa 1960, p. v) became modern again. Hence we intend to very briefly sketch the making of Sraffa’s theory of distribution, the underlying idea being that a phenomenon is understood better if its genesis is investigated. Given this, we first deal with Sraffa’s critique of the existing theory of value and distribution. In fact, his 1926 article launches an attack on Marshall’s theory of prices, specifically on his supply curve and, given this, upon the notion of partial equilibrium in terms of supply and demand on individual markets. The critique will be completed by a brief treatment of the capital theoretic discussion.

After the fundamental critique of the still dominating neoclassical distribution theory, Sraffa’s theory of prices is sketched on the basis of his 1960 book. In this context it is suggested that the change in the theory of price has implications for the theory of distribution; the reason is that differing views of the process of production underlie the classical (Sraffian) and neoclassical (Marshallian) theory of value and distribution. This implies that the simultaneous determination of the prices of production must be preceded by the regulation of distribution through the surplus principle: one of the distributive variables, real wages and rate of profits, has to be fixed outside the production system; Ricardo opted for the real (natural) wage, Sraffa for the rate of profits. In the forth section the immense theoretical and empirical-historical fruitfulness of the surplus principle is put to the fore.

 Appropriately interpreted, the classical theory of value and distribution on the basis of the social and circular process of production elaborated in Sraffa (1960) may be combined with Keynes’s theory of employment to yield a classical-Keynesian monetary theory of production. Here distribution emerges as a crucial determinant of the level of employment.