

VALUE THEORY BEFORE MARX

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ANY economic theory of value is divided into two parts: the notion of value, and its determination. Since the latter normally depends on the former, our investigation will be directed principally to the notion of economic value in the period preceding Marx's *Critique of Political Economy and Capital*.

Before the Classical labour theory of value, we have no complete system of economic value. Naturally, the notion of value existed from very early times, for common-sense always expressed an estimate of the utility of goods both as satisfying personal needs and for purposes of exchange. As history evolved and as exchange increased, however, economic value began to acquire a growing importance.¹

The first important contribution to value theory is to be found in Scholastic philosophy, notably in St. Thomas Aquinas. While the Mercantilists were later to consider value from the aspect of man's activity in exchange, Aquinas went deeper. Like Marx, he took nothing for granted, and tackled the problem of value from its very roots: the consideration of man as its producer, inasmuch as man is a producer of commodities. St. Thomas was mostly interested in the study of the activities of the small independent producer of his day, and precisely in the problem of profit.

Aquinas wanted to know what exactly constituted a just price. He established that the seller's remuneration should be proportionate to the effort and outlay involved in the production of the commodity. The basis of value was therefore an objective estimate of the cost involved, taking into consideration not only the labour required, but also the material cost of the commodity itself as represented through raw materials, the cost of transport etc. In the self-sufficient communities of Aquinas' time, such an approach to the problem of value was sufficient and functional; for ultimately the equilibrium between cost and profit was to be established by a mutual estimate of the commodity's value between the seller and the buyer.

Already, however, in late Medieval times, a new type of seller was entering the market: the professional merchant, bent on obtaining the highest profit possible. Aquinas recalls, in this respect, Aristotle's dis-

¹For a full survey, cf. H.R.Sewall: *The Theory of Value before Adam Smith*, Publications of the American Economic Association, 3rd Series, Vol. II, n. 3.

inction between that kind of activity where one thing is exchanged for another, or *natural* exchange, and that other activity where exchange is expressly made for profit. This second activity is regarded as dishonourable by Aquinas, unless it is directed to a worthy end, such as helping the needy or supporting one's family; or unless before reselling it the merchant has modified it, thus increasing its *natural* value,² i.e. the notion of *value added*.

St. Thomas' notion of the just price was eventually forgotten, as the market developed and unconsciously determined its price. But his basic notions of economics are still topical. He considers that the ultimate end of economic value is directed to the total welfare of man, and is therefore a foremost partisan of the view that welfare economics and pure economics cannot be really separated.³ Man's labour, he says, is not primarily intended to increase productivity, nor can it be used principally to that end. Consequently, in his view the marginal product could never become the only measure of wages. He holds that man's labour is first of all directed towards acquiring a living.⁴ And this finality should determine the notion of the value to be attributed to labour. The wage to be paid out to the labourer is not to be assessed in the same way as one determines the value of a commodity.⁵ His wage cannot be a subsistence wage, but a living wage; in Aquinas' mind, no wage would be in accordance with the demands of justice – his ultimate criterion – if it is not adequate to the vital needs of the worker and his family.⁶

²Cf. *Ibid.*, p. 18. See also A.E. Monroe: *Early Economic Thought*, pp. 62-4; and Meek, R.L., *Studies in the Labour Theory of Value*, pp. 122 ff.

³'Finis ultimus oeconomiae est totum bene vivere secundum domesticam conversationem'. St. Thomas Aquinas: *Summa Theologica*, 2, 2ae, q. 50, a. 5.

⁴'Labor manualis ordinatur primo et principaliter ad victum quaerendum'. St. Thomas Aquinas, op. cit., 2, 2ae, 2. 187, a. 3. This compares favourably with Adam Smith who writes: 'A man must always live by his work and his wages must at least be sufficient to maintain him. They must even upon most occasions be somewhat more, otherwise it would be impossible for him to bring up a family, and the race of such workmen could not last beyond the first generation'. Adam Smith, *The Wealth of Nations*, I, p. 75.

⁵'Id enim merces dicitur quod alicui recompensatur pro retributione operis vel laboris, quasi quoddam pretium ipsius. Unde sicut reddere iustum pretium pro re accepta ab aliquo est actus iustitiae, ita etiam recompensare mercedem operis vel laboris est actus iustitiae. Iustitia autem aequalitas quaedam est'. St. Thomas Aquinas, op. cit., 1, 2ae, q. 144, a. 1.

For an interesting discussion on St. Thomas' views on wages, cf. Cirillo, R., 'St. Thomas Aquinas and the Theory of Wages' in *Melita Theologica*, V.V., n. 2. (1952).

⁶'Secundum quod labor manualis ordinatur ad victum quaerendum, cadit sub necessitate praecepti, prout est necessarium ad talem finem'. Aquinas, op. cit., 2, 2, ae, q. 187, a. 3.

Aquinas' view of labour bears, therefore, some kinship to Marx's notion of labour-power as the source of value, though the former is limited to a consideration of the just price and the just wage. Another interesting parallelism may be found in Aquinas' view on private property, inasmuch as property is to be used for the common good of all. Though in this view man has a right to private property, yet this right is not absolute. For justice demands that when necessity arises this private property should be used to alleviate the lot of the needy. And when a man's private property has reached a reasonable measure, such that it provides security for himself and his family, the *superfluous* should go to the benefit of the less privileged.⁷

Because of this insistence on objectivity in economics, the Angelic Doctor's lasting legacy to future value theories lay in his viewpoint of equilibrium between cost of production and selling price: an objective notion of value of which traces already existed in Aristotle, and which Marx was duly to consider.⁸

With the expansion of trade and commerce, it became increasingly difficult to reckon value on a basis of a just price. With the rise of Mercantilism, a new notion of value emerged: the *conventional* price. An element of subjectivity was thus introduced into value theory, though still related to the objective notion of the just price. The partisans of the conventional price approach held that a price was just if the purchaser was willing to pay it to the seller. The idea of marginal utility was still far off; and so this conventional price represented the value a particular person attributed to a commodity because of its special utility to him, a form of esteem value. As a result, value theory in early Mercantilism was subjective, paving the way for a greater accent on the subjective laws of value rather than on the objective costs of the commodity.

During the sixteenth and early seventeenth centuries several writers jotted down their comments on the expansion of trade; and though no one of them developed a theory of value, yet one may discern three principal notions of value current at that period.⁹

Value in its *natural* aspect was usually considered as identical with

⁷ '... aliud vero quod competit homini circa res exteriores et usus ipsarum; et quantum ad hoc non debet homo habere res exteriores uti proprias, sed ut communes, ut scilicet de facili eas communicet in necessitate aliorum'. Ibid., 2, 2ae, q. 66, a. 2.

⁸ Cf. Marx, Karl, *Capital*, I, pp. 28-8. According to Marx, Aristotle was unable to analyse further his study of exchange because he lacked any concept of value, due to 'the peculiar conditions of the society in which he lived'.

⁹ I have here followed Meek's exposition. Cf. Meek, op. cit., pp. 15ff.

the actual market-price of a commodity.¹⁰ Secondly, *value* was determined by supply and demand.¹¹ Thirdly, commodities had an intrinsic quality, distinct from the market price, namely utility: the commodity's *intrinsic value*. Barbon, in his *Discourse of Trade* published in 1690, summarises the value relationship between utility and market price in this way:

'The value of all wares, arriveth from their use; and the Deamess and Cheapness of them, from their Plenty and Scarcity'.¹²

Barbon's economic ideas as well as those of his contemporaries were largely influenced by the merchants for whom economic value represented the commodity's market price which, of course, was influenced by utility through demand. Such an approach to value theory was possible because in the early Mercantilist period the means of production were still in the hands of direct producers; so that at this time there could be no talk of the exploitation of the labourer. If anything, it was the consumer who was exploited.

Meanwhile industrial capitalism was expanding particularly in England. Side by side with the idea of the market price in determining value, the old idea of the objectivity of value began to reappear. The producers were prone to consider the value of their products based on the costs of production. John Cary in 1719 distinguished between the *real* value of the commodity as representing the cost of production and its price, the latter being ultimately determined by the subjective influence of demand.¹³

As trade expanded, the necessity of labour-power increased. At the same time, manufacturers were marketing cheaper goods than the indivi-

¹⁰ 'The Price of Wares is the present Value... The Market is the best judge of Value; for by the Councourse of Buyers and Sellers, the Quantity of Wares, and the Occasion for them are best known: Things are just worth so much, as they can be sold for, according to the Old Rule, Valent Quantum Vendi Potest'. Nicholas Barbon: *A Discourse of Trade*, published in 1690. Cf. the edition by J.H. Hollander, pp. 13-16.

¹¹ 'The Price of Wares is the present Value, and ariseth by computing the occasions or use for them, with the Quantity to save that Occasion... It is impossible for the Merchant when he has Bought his Goods, to know what he shall sell them for. The Value of them depends upon the Difference betwixt the Occasion and the Quantity tho' that be the Chiefest of the Merchants care to observe, yet it Depends upon so many Circumstances, that it's impossible to know it. Therefore if the plenty of the Goods, has brought down the Price, the Merchant layeth them up, till the Quantity is consumed, and the Price riseth'. *Ibid.*, p. 39.

¹² *Ibid.* p. 41.

¹³ Cary held that manufactured goods 'yield a price, not only according to the true value of the Materials and Labour, but an Overplus according to the Necessity and Humour of Buyers'. John Cary: *An Essay towards Regulating the Trade and Employing the Poor in this Kingdom*. 2nd ed., 1719, pp. 11-12.

dual producer; and gradually the latter had to give up his private production and turn over to the big producer as a paid labourer. Unconsciously a price began to be fixed on labour, and the transition from the Mercantilist theory towards the Classical value theory began to take a definite form. Labour-power was now looked upon as a great source of value in creating commodities and this brought about a revolution in economic thought. The productive force of the nation coincided with the amount of available labour-power, so that human labour began to be considered the principal element in the costs of production.

In the seventeenth century, however, we still have no labour theory of value beyond general statements about the importance of labour in determining costs. John Locke, writing in 1691, believed that concrete labour, as distinct from the Abstract Labour of the Marxian theory, was mostly responsible in determining the utility of a commodity. 'For it is labour', he writes, 'that puts the difference of value on everything... of the produce of the earth useful to the life of man, nine-tenths are the effect of labour'.¹⁴

Most of the economists of the period were more or less of the same opinion, and their works reveal a change of focus from exchange to production. But, as Meek has rightly noted,¹⁵ the economics of the period in speaking of labour as the *source of value* referred to the fact that exchange value arising out of the cost of the wages, adds to the *natural* cost of the commodity by increasing its intrinsic utility. As in the Middle Ages economic thought was directed to the concept of the just price, so late Mercantilist and early Classical thought was directed to the notion of the natural price.

In the course of the rise of industrial capitalism in the eighteenth century, economists began to recognise that a new form of income had emerged: profit on capital. Previously, profit had generally been considered as

¹⁴ John Locke: 'Of Civil Government', Bk. II, Ch. V, in *Works* ed. 1768, p. 234. Marx, commenting on Locke's concept of labour, writes: 'Labour bestows on objects almost their whole value ('value' is here equivalent to use value, and labour is taken as concrete labour, not as a quantum; but the measuring of exchange value by labour is in reality based on the fact that labour creates use value). The remainder of use value which cannot be resolved into labour is the gift of nature and hence in its essence common property. What Locke therefore seeks to prove is not the contrary, namely that property can be acquired in other ways than by labour, but how, in spite of the common property provided by nature, individual property has been created by individual labour. One limit to property is therefore the limit of personal labour; the other limit is that a man does not accumulate more things than he can use'. Marx: *Theories of Surplus Value*, Lawrence and Wishart, London, 1954, 27-8.

¹⁵ Cf. Meek, *op. cit.*, pp. 23-4.

accruing from buying things cheap and selling them dear. In industrial capitalism, profits appeared as income derived from the use of capital in employing labour. This was a major event in world history, destined to culminate in modern monopoly capitalism. Never before had man considered economy as based principally on profit from accrued capital. The change of outlook altered the whole course of economic history.

Sir William Petty, to whom Marx dedicated the first chapter of *Theories of Surplus Value*, had considered profit as rent, the rent of money being usury.¹⁶ It is in Sir Dudley North that, as Marx points out,¹⁷ we have the first idea of profit derived from money as a pure form of capital or the idea of *stock*. Interest, North held in 1691, is rent from stock, just as normal rent is for land.¹⁸ Marx notes that rent at this period was considered the original form of surplus-value.¹⁹ As a matter of fact, North pointed out the important difference between hoarded money, as dead capital, and capital proper; the latter producing rent *either in Land at Farm, Money at Interest, or Goods in Trade*²⁰ gives rise to surplus value, in Marx's interpretation, as *self-expanding value*.²¹ Eight years later, a similar view was expressed by John Bellers who held further that *Money neither increaseth, nor is useful, but when it's parted with*.²²

Some years later, a distinction was introduced between interest derived from land or from money deposited at interest, and capital used for industrial investment. The former was considered by Massie, in 1750, as a passive form of capital giving rise only to an ordinary rate of interest, so that in any economy where *landed interest* was predominant, the rate of

¹⁶ 'But before we talk too much of Rents, we should endeavour to explain the mysterious nature of them, with reference as well to Money, the rent of which we call Usury; as to that of Lands and Houses aforementioned'. Sir William Petty: *Treatise of Taxes and Contributions*, London 1679, p.23 (First published 1662).

¹⁷ 'A definite conception of *stock* or capital, or rather of money as a pure form of capital, in so far as it is not means of circulation, appears for the first time in his (i.e. North's - A.'s Note) writings'. Marx, op. cit., p.26.

¹⁸ But as the Landed Man lets his Land, so these still Lett their stock; this latter is call'd Interest, but is only Rent for Stock, as the Other is for Land'. Sir Dudley North: *Discourses upon Trade, etc.*, London, 1691, p.4.

¹⁹ Marx, op. cit., p.31, footnote.

²⁰ 'No man is richer for having his Estate all in Money, Plate &c., lying by him, but on the contrary, he is for that reason the poorer. That man is richest, whose Estate is in a growing condition, either in Land at Farm, Money at Interest, or Goods in Trade'. North, op. cit., p.11.

²¹ *Capital*, Marx comments, 'is self-expanding value, while in the formation of a hoard the aim is the crystallised form of exchange value as such'. Marx, op. cit., p.32.

²² John Bellers: *Essays about the Poor, Manufacturers, Trade Plantations and Immorality etc.* London, 1699, p.13. Quoted by Marx in op. cit., p.32, footnote.

interest tended to increase.²³ On the other hand, when money was invested in industry, the *lust for gain (that) entirely dominates the merchant*²⁴ led to a profit over and above the ordinary rate of interest.

Another important advance concerned the differentiation of profit from wages. As paid labour began to be used more and more in industry, the producer-labourer relationship resulted in a new notion of *surplus value*. In early capitalism, however, the employers were normally newly risen from the class of individual producers; and hence they tended to regard their net profit from the whole transaction not in the sense accorded to it in modern economics, but as a sort of wages due to them for their initiative. This mentality subsisted even in later years when the employer only advanced the capital for commercial enterprise; for then the capitalist looked at his profit as the *wages of superintendence*. It fell to Smith to explain, in due time, the difference in principle between the wages of labour and the returns of capital, or profit as profit which for Marx is nothing else but surplus value.²⁵ Smith showed that profit could no longer be identified with wages, as Cantillon and Hutcheson had held. Nor could it be, as Sir James Steuart had postulated, a *profit upon alienation*²⁶ arising out of the fact that the price of the goods is greater than their real value.²⁷

NATURAL PRICE IN CLASSICAL ECONOMICS

Due to this accent on the price of commodities, the development of value theory in Classical economics became dependent on the notion of *natural price*. The preliminary approach to this Classical concept may be found in Sir William Petty, who distinguished between natural price, which for Marx connotes value,²⁸ and the *political price* or *the true Price Current*.²⁹ Cantillon distinguished between the commodity's market price and its *intrinsic* value; the latter is made up of the *value of the land* and the *value of the labour* used to produce it. He points out that normally

²³ 'In a State, therefore, where there is nothing but a landed interest, the borrowers must be very numerous, and the rate of interest must hold proportion to it'. Massie: *An Essay on the governing causes of the natural rate of interest; wherein the sentiments of Sir William Petty and Mr. Locke, on that head, are considered*. London, 1750 (published anonymously). Cf. Marx, op. cit., p. 35.

²⁴ Ibid.

²⁵ Cf. Ibid., p. 40.

²⁶ Sir James Steuart: *Principles of Political Economy*, I, London 1805, p. 244. (Edited by his son, General Sir James Steuart).

²⁷ Marx, op. cit., p. 41.

²⁸ 'By natural price he means in fact *value*'. Ibid., p. 15.

²⁹ Cf. Petty, op. cit., pp. 66-67.

market prices tend to an equilibrium with the cost of production, or that they tend to an optimum; for, he writes, 'in well-organised Societies the Market Price of Articles whose consumption is tolerably constant and uniform do not vary much from the intrinsic value'.³⁰

Cantillon, however, does not include profit on capital as forming part of *intrinsic* value, though, as Meek notes he approaches the *natural* equilibrium price in which profit at the normal rate is included.³¹ The notion of profit as a kind of income on its own representing a surplus of profit to the entrepreneur when all, including the *wages of management* or *superintendence* have been paid, has not yet fully emerged. In other words, the formal notion of surplus value is still absent, though Marx in his comments on the economists who preceded Smith conveys the impression of trying to make them talk in terms of surplus value. The inescapable fact is that for some time the entrepreneur of industrial capitalism was considered more a superior sort of independent labourer than an entity wholly distinct from the labourer, and he was therefore viewed from a widely different standpoint than in later times. The Medieval concept of man's labour being directed to procuring his living was deeply embedded in men's minds, and not only lay at the roots of the doctrines of these earlier economists but, formed part of the foundations of Marx's economic edifice.

Harris, writing in 1757, held that the intrinsic value of commodities is not determined by utility but by the cost of production as represented by the land, labour and skill required to produce them.³² His attitude brings us a step closer than Cantillon to Classical thought; but his description of demand as increasing or lowering price without affecting the cost of production is still somewhat primitive.³³ A certain dualism is apparent in his work between *Prime cost* and *the proportion of buyers to sellers* which appear as virtually equal co-determinants of the *natural price*.³⁴

³⁰ Cantillon: *Essai sur la Nature du Commerce en General*, Royal Economic Society edition, pp. 29-31.

³¹ Cf. Meek, op. cit., pp. 28-9.

³² 'Things in general are valued, not according to their real uses in supplying the necessities of man; but rather in proportion to the land, labour and skill that are requisite to produce them: it is according to this proportion nearly, that things or commodities are exchanged one for another; and it is by the said scale, that the intrinsic values of most things are chiefly estimates'. Harris: *An Essay upon Money and Coins*, 1757, p. 5.

³³ 'A quicker or slower demand for a particular commodity will frequently raise or lower its price, though no alteration hath happened in its intrinsic value or prime cost'. Ibid.

³⁴ Cf. Meek, op. cit., p. 30.

William Temple moved nearer to the Classical theory of Value by including profit at the normal rate as a constituent of value, together with the value of the land and of the labour necessary for the commodity's production.³⁵ Temple's inclusion of this profit which he calls *brokerage* influenced the Classical economists in concluding that natural price was not arbitrarily fixed, but had to be stipulated in accordance with given principles. They later worked out that the natural price of commodities in the competitive market resulted from *prime costs* and *natural rate profit*. It was then possible to describe the actual market price as that *Price Current* tending towards the natural price, which became for Smith *as it were the central price to which the prices of all commodities are continually gravitating*.³⁶

COST OF LABOUR IN CLASSICAL THOUGHT

Two main reasons may be advanced to explain the transition from the simple *cost of production* theory of value of the earlier economists to the labour theory formulated by Classical economists.

In the first place, the Classical economists in trying to probe into the workings of economy in all its aspects, could not forego the study of the cost of production from its very basis. A superficial attitude in this regard had been possible up to the early eighteenth century, when a cost of production theory sufficed to determine the average prices of a small economy, just as *supply and demand* value theory had sufficed in Mercantilism, when the balance of exchange was the heart of the matter. Hand in hand with the expansion of production in the nascent era of industrial capitalism, there arose a new and deeper economic outlook. The main question no longer was: how is the natural price determined?; the inquiry now shifted to the very foundation of wealth. A start from scratch, one may say.

What mattered most of all to the new economist was not the basis of exchange as such, nor the determination of the natural price, but what

³⁵ 'I can most clearly perceive that the value of all commodities or the price, is a compound of the value of the land necessary to raise them, the value of the labour exerted in producing and manufacturing them, and of the value of the brokerage which provides and circulates them'. Temple: *A Select Collection of Scarce and Valuable Tracts on Commerce*, 1859, p. 522.

³⁶ Adam Smith, op. cit., I, p. 64. For Smith, the actual price of a commodity 'is regulated by the proportion between the quantity which is actually brought to market, and the demand of those who are willing to pay the natural price of the commodity, or the whole value of the rent, labour, and profit, which must be paid in order to bring it thither'. Ibid., pp. 62-3. The influence of Temple's thought, as represented in note 35 on the above extract from Smith, is apparent.

constituted, first of all, the cost of production. The question of *intrinsic value* was, for the moment, laid aside, and minds centred on revealing the objective source of value. A spirit of scientific objectivity was in the air, with the result that little or no scientific attention was paid to psychological factors. Classical economists were intent on making economics rank as much as possible as an exact science, probably influenced by the general spirit of the period. Moreover, the phenomenal rise of capitalism had to have an objective basis, as indeed it has; and the Classics wanted to delineate this basis with almost mathematical precision.

In the second place, the fantastic profits made by capitalists could not be explained as *superior wages*; but as a net profit over and above that, namely as *surplus*. Furthermore, economists could not bring themselves to consider this profit as forming part of the costs in the process of exchange, but as formally born in exchange itself. Consequently, Classical economists for whom profit was a major source of capital, tried to find a new principle of value, such that the quantitative difference in value between input and output could be objectively explained. The more introspective among them began to look to the production scene, and to give greater weight to the role of labour there. More important still, they began to conclude that the difference in profits between the capitalists and the earlier merchants had something to do with cooperative effort in factory labour, and learned that, up to a point, the law of increasing returns was profiting the capitalist.

Petty first put forward a sketchy idea of labour time as measuring value and therefore of labour as its determinant. Marx rightly interprets Petty as saying that the value of labour is determined by the necessary means of subsistence.³⁷ And indeed this celebrated passage, written in 1679, is remarkably close to Marx's own notion of surplus labour:

'For then the law that appoints such Wages were ill made, but which would allow the Labourer but just wherewithal to Live; for if you allow double, then he works but half so much as he could have done, and otherwise would; which is a loss to the Publick of the fruit of so much labour.'³⁸

The accent in Petty is, however, more on the quantity than on the quality of labour; for, like his contemporaries, he considered labour as the

³⁷ Marx interprets Petty in this way: 'The value of labour is therefore determined by the necessary means of subsistence. The worker is impelled to produce value and to perform surplus labour only by the fact that he is forced to use the whole of the labour power within his capacity in order to get for himself just as much as he needs to live'. Marx, *op. cit.*, p. 16.

³⁸ Petty, *op. cit.*, p. 64.

source of wealth not in the Marxian sense of Abstract Social Labour, but in the concrete sense of the law of increasing returns. Hence his surplus labour does not arise from the social division of labour, as Marx was later to suggest, but from the actual division of labour in the factory. It was this latter view which was eventually taken up by Classical economists in formulating their labour theory.³⁹ Like the Physiocrats, Petty held that the true form of surplus value resulted not only from the excess of the amount of labour applied beyond the necessary labour but also, Marx explains, as the excess of the surplus labour of the producer himself over his wage and the replacement of his capital.⁴⁰ Rent resolves itself into surplus labour; for if the value of the corn yielded by a field is determined by the labour time taken to produce it (or, for Marx, *contained in it*), and the rent is equal to the total product minus the wages and the seeds (as constituents of the costs of production), rent becomes equal to the surplus product in which the surplus labour is materialised. For Petty, then, *rent* includes profit, since it is equal to the total surplus value, and the value of land is capitalised rent.⁴¹

In his *Treatise*, Petty seems to be labouring at the reconciliation between the expenditure of labour as the source of exchange value⁴² and the difference between the actual market price or the *true Price Current* and the *natural price*. Obviously, the market price represented more than the wages of labour because it included that amount of the *value of land* represented in it. Petty being, as we have seen, more concerned with the quantitative aspect (and so viewing the difficulty from the standpoint of division of labour in manufacture) tries to go round it by establishing the *value of land* quantitatively. He holds that this is a sum of yearly rentals. To determine it, Petty uses the English computation to determine the normal tenure of usufruct, namely twenty-one years. The amount of a twenty-one year usufruct becomes the value of the land.

Naturally, from the labour theory standpoint, this is no solution. As long as land is considered, in some way or other, a determinant of value, value theory is still tainted with the idea of *cost of production*. Petty and his immediate successors had a glimpse of the labour theory, but land acted as a stumbling-block to further elaboration. It was only when an over-all idea of labour was introduced into the notion of value that a mature labour theory could be developed.

³⁹ For a detailed treatment of this important distinction, cf. Meek, *op. cit.*, pp. 37 ff.

⁴⁰ Cf. Marx, *op. cit.*, p. 17. See Also Petty, *op. cit.*, pp. 23-4.

⁴¹ Cf. Marx, *op. cit.*, pp. 17-19.

⁴² Cf. Petty, *op. cit.*, pp. 31, 66.

Till the Glasgow Lectures of the 1760's, however, constant attention was paid by economists of the late seventeenth and early eighteenth centuries to this problem. Thus Turgot in France in his *Réflexions sur la Formation et la Distribution des Richesses* of 1766 gave a developed form of the Physiocratic doctrine vis-a-vis labour.⁴³ The agricultural worker is considered as the real producer and so the real creator of surplus value.⁴⁴ Here, in a way, the value of the land is incorporated into the product. This form of labour is the *natural basis* and necessary condition for the independent functioning of all other forms of labour.⁴⁵ Turgot considered this agricultural labour as constituting two kinds of labour: that labour necessary for the husbandman's own subsistence; and the labour used beyond that as producing a surplus to pay wages to his workers in exchange for their labour. The employees of the husbandman, on the other-hand, in buying the produce of the husbandman return to him exactly what they have received from him. In this case, the husbandman is not selling above the value of the product, as would be the case in the *surplus value* of Mercantile economy. Surplus value is here realized precisely in circulation, for the husbandman in the very act of selling his *surplus* product at its own value, is selling surplus-value. Naturally, the husbandman can do this because he has not bought what he sells. The very abundance of the natural product which, Turgot notes, 'nature accords him as a pure gift'⁴⁶ is used to buy labour-power, increasing his surplus-labour and his surplus-value.

Prior to the *Wealth of Nations*, the most advanced form of the Labour theory is contained in an anonymous pamphlet which appeared in London about 1739, entitled *Some Thoughts in the Interest of Money in General, and particularly in the Publick Funds, &c.*⁴⁷ Utility is here considered as

⁴³Cf. Turgot: *Reflexions sur la formation et la Distribution des Richesses*, I, Ed. Daire, Paris, 1844.

⁴⁴As Marx notes, the same idea occurs in Quesnay who in his 'Analyse du Tableau Economique' wrote of 'the productive class (agricultural workers), the class of land-owners and the sterile class, or all citizens who are occupied with tasks and labour other than agriculture'. (See *Physiocrates etc.* I, Ed., Daire, Paris 1846, p. 58; as quoted by Marx, in op. cit., p. 58).

⁴⁵Marx, *ibid.*

⁴⁶Turgot, op. cit., p. 11. Turgot adds: 'He (i.e. the husbandman - A's Note) is therefore the sole source of the riches, which, by their circulation, animate all the labours of the society; because he is the only one whose labour produces over and above the wages of the labour'. (As quoted by Marx in op. cit., p. 59).

⁴⁷Marx, who quotes the pamphlet in *Capital*, among other places, writes: 'This remarkable anonymous work, written in the last century, bears no date. It is clear, however, from internal evidence, that it appeared in the reign of George II, about 1739, pr. 1740'. Cap. I, p. 6. footnotes.

the true and real value – a remarkable advance in thought which shows that the pamphlet's author was closer to modern economic thought than any of his predecessors or contemporaries. Contrary to Marxian doctrine, he held that real value is not exchange but use value.⁴⁸ A commodity's exchange value is considered as being *regulated by the Quantity of Labour necessarily required, and commonly taken in producing them*,⁴⁹ which to all intents and purposes hardly seems different from Marx's *socially-necessary labour*. Moreover, the anonymous author insists that a commodity which has use value can usually possess exchange value only if labour is bestowed on it.⁵⁰ It would seem, therefore, that he recognised utility as the real source of value, and labour time socially-necessary as its determinant. In this view, too, exchange value could only be produced through labour, and so utility appears to be the source of *abstract* or *intrinsic* value, while economic value remained in the realm of labour.

This unknown writer also establishes that principle by which things can only be exchanged on the basis of the quantity of labour contained in them,⁵¹ ultimately determined, as has been said, by the labour time socially-necessary for the labourer's maintenance.⁵² His influence on Adam

⁴⁸ 'The true and real value of the Necessaries of Life, is in Proportion to that Part which they contribute to the Maintenance of Mankind'. *Some Thoughts on the Interest of Money in general, and particularly in the Publick Funds, &c.*, London, p. 36.

⁴⁹ *Ibid.* Curiously enough, Meek says nothing about this essential difference between the anonymous author and Marx. I cannot help noting that, in this respect, the unknown author admirably anticipates modern utility theory; and in combining subjective and objective factors may well have been a better economist than Marx. Marx writes: 'We see then that that which determines the magnitude of the value of any article is the amount of labour socially necessary, or the labour-time socially-necessary for its production'. Cap. I, p. 6. It is at this point that Marx refers us to the footnote quoted in note 47.

⁵⁰ 'Water is as necessary for Life as Bread or Wine; but the Hand of God has poured out that upon Mankind in such Plenty, that every Man may have enough of that without any Trouble, so that generally 'tis of no Price; but when and where any Labour must be used, to apply it to particular Persons, there the Labour in making the Application must be paid for, tho' the Water be not: And on that Account, at some Times and in some Places, a Ton of Water may be as dear as a Ton of Wine'. *Some Thoughts &c.*, p. 37. Compare with Marx: 'A use value, or useful article, therefore, has value only because human labour in the abstract has been embodied or materialised in it'. Cap. I, p. 5.

⁵¹ 'In the more ancient Times, when Commerce was carried on merely by bartering one Commodity for another, I apprehend no other Rule could be made Use of in exchanging one Thing for another, but the Quantity of Labour severally employed in producing them'. *Some Thoughts &c.*, p. 39.

⁵² 'One Man has employed himself a Week in providing this necessary of Life, and for his Pains deserves just as much as will Maintain him for a Week; and he that

Smith was considerable;⁵³ and it is on the Glasgow lecturer that we now focus our attention.

THE LABOUR THEORY IN ADAM SMITH

In the 1750's Adam Smith was the holder of the Moral Philosophy Chair at Glasgow University. Thanks to a student's notes,⁵⁴ we can have an idea of Smith's thought at Glasgow before the *Wealth of Nations*.

Accumulation of capital plays a minor part in these *Lectures*, and so the notion of the natural rate of profit, in relation to the quantity of stock employed by the capitalist, is absent. Consequently the Smith of the Glasgow lectures does not approach the problem of value in the same way as the Smith of the *Wealth of Nations*. He looked at economic value from the viewpoint of price. To him *natural price* was the central or average market price of a commodity. He then set out to see what constituted natural price and how the market price tended to equal the central price. Unlike Cantillon, Smith did not consider the commodity's natural price as being related to the actual price of the labour employed to produce it, but to the natural price of labour.

This relation, however, was not equivalence. Smith rather understood it as a psychological relationship in the sense that the price of the commodity was to be sufficiently high to yield to the worker (understood in the *Lectures* as a direct producer),⁵⁵ after the cost of producing the commodity had been paid, a *profit* at least equivalent to the natural price of his labour, namely that amount of money *sufficient to maintain him during the time of labour, to defray the expenses of education, and to compensate the risk of not living long enough, and of not succeeding in the business.*⁵⁶ The value of labour is here regarded in a way as the *socially-*

gives him some other in exchange cannot make a better Estimate of what is a proper Equivalent than by computing what cost him just as much Labour and Time; which in Effect is no more than exchanging one Man's labour in one Thing for a Time certain; for another Man's Labour in another Thing for the like Time'. Ibid.

⁵³ Compare the above extract with the following from Adam Smith: 'In that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects, seems to be the only circumstance which can afford any rule for exchanging them for one another'. Smith, op. cit., p. 52.

⁵⁴ A student took down notes in 1763 of Smith's lectures on *Justice, Police, Revenue and Arms*. It was over a century later that these notes came to light, and Edwin Cannan published them in 1896.

⁵⁵ Smith, in these *Lectures* seems to be considering that stage of production still mainly made up of several independent direct producers. Cf. Meek, op. cit., pp. 4-9.

⁵⁶ Adam Smith: *Lectures*, Cannan ed., p. 176.

necessary labour.

But it is not taken as a general constituent of economic value. The emphasis is on market price, which Smith determines through the demand for the commodity, its supply in relation to the demand, and through the solvency of the would-be consumers. It will be seen that this earlier Smith accentuates more the role of effective demand in determining the actual price than the later Smith. As a result, economics seems to him to be motivated by the individual producer's desire to obtain the highest *profit* for his own labour on the market, or in getting the best market price. It was only when he had tackled the problem of value more directly that he argued that the dynamism of an expanding industrial economy is powered by the individual capitalist's desire to obtain the highest possible rate of profit on his capital.

One may validly say, then, that when Smith speaks here of labour as the measure of value,⁵⁷ he does not understand it as being a constituent of value but rather as the quantitative measure related to the market price.⁵⁸

While Smith was lecturing at Glasgow, society was changing. Large-scale production was giving birth to a new economic system where the individual producer was gradually being absorbed by the entrepreneur. The two years spent in Europe, 1764-66⁵⁹ enabled Smith to contrast industrially underdeveloped France with the highly industrialized Glasgow of his return, and to draw the relevant conclusions. A new approach to economic problems was necessary and the *Wealth of Nations* came to be written.

Smith's arguments on value in this momentous work result from his doctrine of the division of labour in society. Probably influenced by his

⁵⁷ 'We have shown what rendered money the measure of value, but it is to be observed that labour, not money, is the true measure of value'. *Ibid.*, p. 190.

⁵⁸ Cf. Meek, *op. cit.*, p. 51.

⁵⁹ There has been a lot of discussion over the extent of Physiocratic thought on Smith. Professor Scott in *Adam Smith as Student and Professor*, (pp. 118-8 and 319-20) claims that prior to going to France in 1764, Smith had already drawn up a draft of his theory; but I agree with Meek's contention that this is not likely, for the *Lectures* reveal a different outlook, especially in the discussion on natural price. Cf. Meek, *op. cit.*, pp. 55-6. Marx, a thorough student of the Physiocratic System (cf. *Theories of Surplus Value*, pp. 46-57), held that Smith's considerable dependence on the Physiocrats accounts for contradictions in his thought. 'Adam Smith', he writes, 'is very heavily infected with the corruptions of the Physiocrats, and often whole statements run through his writings which belong to the Physiocrats and are in complete contradiction with the views specifically elaborated by himself. This is so, for example, in the treatment of land rent, etc'. Marx, *op. cit.*, p. 108. Marx also claims that 'Adam Smith has not established a single new proposition relating to division of labour'. *Cap. I*, p. 341, footnote.

predecessors, he starts by virtually considering that the division of labour in society and in manufacture are objectively identical,⁶⁰ though in the earlier chapters he concentrates on the former. Pointing out the worker's right to live by his labour, Smith states that with the appropriation of the land and the accumulation of stock, the whole production of labour ceased to be directed to the producer himself.⁶¹ Labour therefore became a commodity.

Smith defines commodities in exchange as those quantities of labour which a man produces beyond his needs,⁶² a phenomenon which follows division of labour. Commodities in exchange become, to use Marxian language, bearers of exchange value. Smith shows how this exchange is rooted in the social relationship between men, in the sense that several workers contribute to the manufacture of a product. Men are in need of each other, and society affords, through exchange, the possibility of mutual satisfaction of needs.⁶³ But he insists on relative utility of goods as a considerable factor in exchange, and though he regards the product objectively as constituted of several *social labours*, yet in the earlier part of the *Wealth of Nations*, he seems to consider utility as ultimately giving exchange value to the commodity – not so much the utility of the product in satisfying a need, or its *use value*, but the utility of its exchange value because of the profit it enables its seller to make.⁶⁴

⁶⁰ Thus in Chapter I, Smith says: 'The affects of the division of labour, in the general business of society, will be more easily understood, by considering in what manner it operates in some particular manufactures'. (Smith, op. cit., p. 5). He then goes on to show the divisions of labour in manufacture, and applied them to society. Marx writes: 'Now it is quite possible to imagine, with Adam Smith, that the difference between the above social division of labour and the division in manufacture, is merely subjective... But what is it that forms the bond between the independent labours of the cattle-breeder, the tanner, and the shoemaker? It is the fact that their respective products are commodities'. Marx, op. cit., pp. 347-8.

⁶¹ But this original state of things in which the labourer enjoyed the whole produce of his own labour, could not last beyond the first introduction of the appropriation of land and the accumulation of stock'. Smith, op. cit., p. 72.

⁶² 'Every workman has a great quantity of his own work, to dispose of beyond what he himself has occasion for; and every other workman being exactly in the same situation, he is enabled to exchange a great quantity of his own goods for a great quantity, or, what comes to the same thing, for the price of a great quantity of theirs'. Smith, op. cit., p. 13.

⁶³ 'Whosoever offers to another a bargain of any kind, proposes to do this: Give me that which I want, and you shall have this which you want is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of'. Ibid., p. 16.

⁶⁴ 'It is not from the benevolence of the butcher, the brewer, or the baker, that we

In Chapter Five, the attitude changes, and Smith considers that a man may be said to be rich or poor in proportion to the quantity of that labour which he can command or purchase. He concludes that the value of a commodity in exchange, as against that of a product destined for the producer's own consumption, is equal to the quantity of labour which that commodity enables him to purchase. 'Labour, therefore', Smith argues, 'is the real measure of the exchangeable value of all commodities'.⁶⁵

But here Smith seems to be in the throes of contradiction. Labour appears to be the constituent of value, but not its measure, so that there is one criterion for input and another for output. Marx pointed out this in *The Critique of Political Economy*,⁶⁶ where he speaks of the confusion in Smith's thought between the determination of the value of commodities by the quantity of labour required for their production, and the quantity of commodities required to buy a definite quantity of human labour.⁶⁷

And so while considering labour as the *real measure* of value, Smith does not understand it as a quantitative measure, but as its constituent.⁶⁸ The measure of value cannot be ascertained in production, but in exchange. It is precisely due to this fact that I am inclined to think that, unconsciously perhaps, Smith was a partisan of utility; and that it was his mental confusion between utility and labour that led him to introduce a dichotomy in value theory. He seemed to have realized that labour, for all its influence on the price of commodities, could only be a qualitative element and that what ultimately caused prices to fluctuate in the market

expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities, but of their advantages'. Ibid. It seems to me that Meek carries his point too far when he argues that Smith is here regarding labour as the *cause* of value because of its social character. This interpretation may not be faulty if applied to parts of Smith's writings, but I believe that its application to this early part of the *Wealth of Nations* is misleading. Cf. Meek, op. cit., p. 62.

⁶⁵ Smith, op. cit., pp. 32-3.

⁶⁶ Marx: Crit., p. 68.

⁶⁷ Cf. Marx: *Theories of Surplus Value*, p. 108. Marx adds: 'Here he makes the *exchange value* of labour the measure for the value of commodities... The value of labour, or rather of labour-power, changes, like that of any other commodity, and in no way differs specifically from the value of other commodities. Here value is made the measuring rod and the basis for the explanation of value — so we have *cercle vicieux*, a vicious circle'.

⁶⁸ Meek explains it in this way: 'According to his way of looking at it, a commodity acquired value because, *but not necessarily to the extent that*, it was a product of social labour. In order to find out how the extent of its value was regulated, Smith believed, one must first find out how its value ought properly to be *measured*. And the measure of value, in Smith's opinion, could not be ascertained by looking at the conditions of its production'. Meek, op. cit., p. 63.

was effective demand.⁶⁹ The actual measure of value, Smith holds, is obtained by the actual *power of purchasing other goods* on the market. This *real measure* being established, one could then proceed to see how it is determined. For Smith, as has been said, the latter works on a different basis.

As Marx was to do later, Smith began his investigation into accumulation through a study of commodities and their exchange, starting, as he did, from the division of labour in society. The producers confront each other as possessors, sellers or buyers, of commodities. Labour as a commodity, is also exchanged. But to Smith the capital-labour relationship was not based in proportion to the quantity of labour represented in exchange between those two commodities, wages and labour. Consequently, labour time could not become the immanent measure which regulated the exchange of commodities. Ricardo was to point out that Smith should have shown that in the capital-labour relationship *quantity of labour* and *value of labour* were no longer identical, so that the value of commodities, though determined by the labour-time contained in them, was no longer determined by the value of labour.⁷⁰

I find myself agreeing with Meek that Smith's concept of the *real measure* of value was an abstract category, and hence could not be applied to concrete economic value.⁷¹ Smith was first and foremost a philosopher and his study of accumulation was made through the eyes of one seeking more than just the proximate cause of things. This may account, in part at least, for the divergence between the abstract *real measure* of labour and the quantitative measure of value as the quantity of wage-labour which could be obtained in the market through the returns from the sale of commodities. Smith's position thus offers, an interesting parallel to Marx's own kind of dichotomy, precisely, I believe, because Marx was principally, like Smith, a philosopher.

It may be contended that Smith's ultimate aim was to establish general

⁶⁹ Cf. Smith, op. cit., pp. 61ff. Note especially this part: 'Such fluctuations affect both the value and the rate, either of wages or of profit, according as the market happens to be either overstocked or understocked with commodities or with labour with work done, or with work to be done'. (op. cit., p. 65). Smith insists that the value of labour does not affect the market price; indeed, he takes labour as a *measure* of value because it does not change. Cf. op. cit., pp. 36 and 66.

⁷⁰ Marx comments: 'He (i.e. Adam Smith - A's Note) should on the contrary, as Ricardo rightly pointed out, have concluded that the expression *quantity of labour* and *value of labour* are then no longer identical, and therefore the relative value of commodities, although determined by the labour time contained in them, is not determined by the value of labour', as the latter expression was only correct so long as it remained identical with the first'. Marx, op. cit., p. 111.

⁷¹ Cf. Meek, op. cit., pp. 64-5.

principles underlying accumulation in general, and not only under capitalism. Two principles, in particular, deserve special attention. One enunciates that whenever a society is characterized by a division of labour, *the value of any commodity (therefore) to the person who possesses it, and who means not to use or consume it, himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command.*⁷² The second states that the real price of a commodity, as distinct from its *real value* is the labour involved in it; its *real value* to him is twofold – in relation to the *toil and trouble* which the commodity has saved him; and, secondly, in relation to what he might get if he were to resell it.⁷³

In a general abstract sense, then, labour was considered by Smith as the real basis of value.⁷⁴ All commodities participate of this Absolute, in much the same way as contingent beings are considered in metaphysics as participating in Absolute Being.⁷⁵ Labour being the Absolute, Smith believes that in it he has found the final cause of the *Wealth of Nations*.⁷⁶

Precisely because of this philosophical outlook, Smith is interested in showing that labour, like any Absolute, is immune to change. Gold and silver vary in value, depending *always upon the fertility of barrenness of the mines*,⁷⁷ and so that quantity of value which they can command varies

⁷² Smith, *op. cit.*, p. 32.

⁷³ 'The real price of everything, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What every thing is really worth to the man who has acquired it and who wants to dispose of it, or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people'. *Ibid.*, p. 33. Meek's interpretation of this disputed passage, distinguish between what a thing *costs* and what it is *worth* is, I believe quite plausible. Cf. Meek, *op. cit.*, p. 67, footnote 2.

⁷⁴ 'What is bought with money, or with goods, is purchased by labour, as much as what we acquired by the toil of our own body. That money or those goods, indeed, save us this toil'. Smith, *ibid.*, p. 33.

⁷⁵ 'They (i.e. those goods – A.'s Note) contain the value of a certain quantity of labour which we exchange for what is supposed at the time to contain the value of an equal quantity'. *Ibid.*

⁷⁶ 'Labour was the first price, the original purchase-money that was paid for all things. It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased; and its value, to those who possess it, and who want to exchange it for some new productions, is precisely equal to the quantity of labour which it can enable them to purchase or command'. *Ibid.*

⁷⁷ 'Gold and silver, however, like every other commodity, vary in their value; are sometimes cheaper and sometimes dearer, sometimes of easier and sometimes of more difficult purchase. The quantity of labour which any particular quantity of them can purchase or command, or the quantity of other goods which it will exchange for, depends always upon the fertility or barrenness of the mines which happen to be known about the time when such exchanges are made'. *Ibid.*, p. 35.

in like measure. It is not the qualitative value of the labour that varies, therefore, and changes the price of commodities; for equal quantities of labour are always of the same value to the labourer.⁷⁸ Labour as a changeless value becomes for Smith the *ultimate and real standard* as well as the *real price of all commodities*.⁷⁹

How then is value regulated in practice? Smith recognised in several parts of his work that the amount of labour which a commodity could purchase or command varied in relation to the amount of labour required to produce it.⁸⁰ But to put this criterion on a workable basis, it had to be shown, first of all, that the quantity of commandable labour, and the quantity of embodied labour were exactly equal. Smith believed that such a perfect equation could only be verified in that pre-capitalist society where the labourer was the direct producer of his own work. In this case, the proportion between the quantities of labour necessary for acquiring different objects would be the only basis of exchange.⁸¹

⁷⁸ 'Equal quantities of labour, at all times and places, may be said to be of equal value to the labourer. In his ordinary state of health, strength, and spirits; in the ordinary degree of his skill and dexterity, he must always lay down the same portion of his case, his liberty, and his happiness. The price which he pays must always be the same, whatever may be the quantity of goods which he receives in turn for it, of these, indeed, it may sometimes purchase a greater and sometimes a smaller quantity; but it is their value which varies, not that of the labour which purchases them'. *Ibid.*, p. 36.

This passage confirms strikingly Smith's philosophical trend. Marx, of course, looked at labour from this viewpoint also; but while Smith placed his notion of labour as a general background principle, Marx brought his notion of Abstract Social Labour to play its role in the quantitative measurement of value. As a matter of fact, Marx believes that Smith in these passages is mixing up *the labour of others* and *the product of this labour* and therefore does not realize that commodities, being products of socially-determined labour, are not absolute, but subject to change. Marx is naturally arguing from the dialectical standpoint viewing change in the social super-structure through changes in the mode of production.

Marx insists that Smith's equating *labour* with the *product of labour* gives rise to the confusion between the determination of the value of commodities by the quantity of labour contained in them, and their determination by the *value of labour*, namely by the quantity of living labour which they can supply. Cf. Marx, *op. cit.*, pp. 114-5.

⁷⁹ 'Labour alone, therefore, never varying its own value, is alone, the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price; money is their nominal price only'. Smith, *op. cit.*, p. 36. Marx considers the above conclusion to be false, arising from the preceding *false* premises. Cf. Marx, *op. cit.*, p. 115.

⁸⁰ On page 35 of the *Wealth of Nations*, he writes: 'As it cost less labour to bring those metals from the mine to the market, so, when they were brought thither, they could purchase or command less labour'.

⁸¹ 'In that early and rude state of society which precedes both the accumulation

Under capitalist accumulation, the returns from the commodity's sale could no longer be proportionate to the *commandable labour*, but had to include a measure of extra profit for the entrepreneur. Consequently, the quantity of labour embodied in the commodity could not be the only determinant of exchange value. 'An additional quantity, it is evident', Smith concluded, 'must be due for the profits of the stock which advanced the wages and furnished the materials of that labour'.⁸² Value, therefore, in modern society was to be measured in practical economics in terms of a level-equilibrium between wages, profit and rent, which Smith considered the three original sources of exchange value.

Use value, of course, received its due study. Smith's concept is rather different from the normal meaning of the basic utility of any commodity which makes it possible to become a repository of exchange value. He understood utility in an abstract manner, relating it to the normal needs of a person.⁸³ This view is not elaborated in his works. But I strongly suspect – with due apologies to Meek⁸⁴ – that if Smith had insisted more on the determinants of price from the demand-end, his thinking would have been clearer, and his value theory more homogenous. It is true that Smith insisted that the level of the natural price was independent of fluctuations in demand. One must, however, remember that Smith himself applied the regulation of value to demand as determining the market price. And if his *labour* value is abstract, some other measure of value must be used in practice.

Wages, profit and rent were, for Smith, the sources of exchange value, but in the last resort, they do not stand by themselves, but are related to commodities and to their exchange. It seems to me that while it is true

of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstances which can afford any rule for exchanging them for one another'. Ibid. p. 52.

⁸²Ibid., pp. 54-5. Smith states that under capitalist accumulation 'the whole produce of labour does not always belong to the labourer. He must in most cases share it with the owner of the stock which employs him. Neither is the quantity of labour commonly employed in acquiring or producing any commodity, the only circumstance which can regulate the quantity which it ought commonly to purchase, command or exchange for'. Ibid., p. 54.

⁸³'The word *value*, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods, which the possession of that object conveys. The one may be called *value in use*, the other *value in exchange*. The things which have the greatest value in use have frequently little or no value in exchange; and, on the contrary, those which have the greatest value in exchange have frequently little or no value in use'. Ibid., p. 31.

⁸⁴Cf. Meek, *op. cit.*, pp. 72-4.

that theoretically Smith envisages the natural price, as the monetary expression of value, independent of demand, yet this is not borne out when he applies his theory. His insistence on the role of labour in determining the natural price is, undoubtedly, praiseworthy in that it tends to give the labourer his due. But I believe Smith himself realized that in the everyday world of economics, he had ultimately to consider demand. Naturally, his theory of value as constituted by labour need not be weakened by this insistence on the natural price – but such a value would be, perhaps, more that of Dr. Smith the Moral Philosopher than of Smith the Economist. Nor does this mean that Smith rejected a labour theory of value; but though he meant to establish it as a cost of production theory (and though he did in fact place invariable labour as the absolute value), yet in the practical estimation of value, he gave way to demand.

His influence on Marx, as well as on Ricardo, lay in that he insisted on labour as the real measure of value; and that in precapitalist society value was measured by the labour contained in commodities, due to the equilibrium between embodied labour and commandable labour. His failure to provide a workable value-principle was itself a stimulus for further research.

VALUE IN RICARDO

Ricardo first talks of value in his pamphlet on *The High Price of Bullion* published in 1810. In the course of his discussion on the depreciation of the paper currency, he says that, as in all commodities, there is an intrinsic value in gold and silver which arises out of their scarcity, the amount of labour used to obtain them, and the value of the capital employed in the mines to produce them.⁸⁵ Ricardo holds, in this pamphlet, that it is the quality of a measure of value to be invariable, and so neither gold nor silver fully qualify for the post. But they are the next best, since their value remains, at least for short periods, unchangeable.⁸⁶

⁸⁵ 'Gold and silver, like other commodities, have an intrinsic value, which is not arbitrary, but is dependent on their scarcity, the quantity of labour bestowed in procuring them, and the value of the capital employed in the mines which produce them'. Ricardo: 'The High Price of Bullion' in *Works*, III, p. 52.

⁸⁶ 'A measure of value should itself be invariable; but this is not the case with either gold or silver, they being subject to fluctuations as well as other commodities. Experience has indeed taught us, that though the variations in the value of gold or silver may be considerable on a comparison of distant periods, yet for short spaces of time their value is tolerably fixed. It is this property among their other excellencies, which fits them better than any other commodity for the uses of money. Either gold or silver may, therefore, in the point of view in which we are considering them, be called a measure of value'. *Ibid.*, p. 65.

At this early period, Ricardo was still very much a follower of Smith, especially in the latter's consideration of value as an absolute. The passage quoted in note 86 above reveals that Ricardo accepted Smith's idea of the invariability of a measure of value; and that like him he suffered from the discrepancy between value as constituted and value as measured. Like him, too, he was concerned to rule out subjective elements, such as utility, in determining the essence of value.⁸⁷ During these years, Ricardo was more interested in the problem of distributional shares; it was through painstaking work in an effort to solve it that he found value-theory a god-send.

Ricardo's first major enterprise was his elaboration of the theory of profit. In his *Essay on Profits*, Ricardo explains in the first place that when the price of corn and the wages of labour remain stationary, the law of diminishing returns comes into operation on the land, as capital accumulates and population increases. Agricultural profit then declines and since Ricardo considered, like Smith, agriculture as controlling the profits of other trades, this would entail a decline in the general rate of profit on capital. When, in the second case, the price of corn and the wages of labour are no longer stationary, the effect of the progress of wealth on prices is a general rise in the price of raw produce and wages – while other commodities retain their original price – and a lowering of the general rate of profit consequent upon the rise in wages.⁸⁸

Moreover, Ricardo in his *Essay* related the value of a commodity to the difficulty or facility of its production. The exchange value of the commodity rises in proportion to the increase of difficulties met in producing it – a principle which Smith had implicitly accepted in the *Wealth of Nations*.⁸⁹

⁸⁷ 'I like the distinction which Adam Smith makes between value in use and value in exchange. According to that opinion, utility is not the measure of value'. Ricardo: 'Notes on Bentham', in *Works*, III, p. 284.

⁸⁸ 'The sole effect... of the progress of wealth on prices independently of all improvements, either in agriculture or manufactures, appears to be to raise the price of raw produce and of labour, leaving all other commodities at their original prices, and to lower general profits, in consequence of the general rise of wages'. *Ibid.* IV, p. 20.

⁸⁹ Smith is discussing the invariability of labour as the real measure of value, stated: 'At all times and places, that is dear which it is difficult to come at, or which it costs much labour to acquire; and that cheap which is to be had easily, or with very little labour'. Smith: *Wealth of Nations*, I, p. 36.

Ricardo writes: 'The exchangeable value of all commodities rises as the difficulties of their production increase. If then new difficulties occur in the production of corn, from more labour being necessary, whilst no more labour is required to produce gold, silver, cloth, linen, &c., the exchangeable value of corn will necessarily rise, as compared with those things... Wherever competition

It helped Ricardo to cast off his idea of agricultural profits regulating the profits of all other trades, and to assume that accumulation and diminishing returns influence profits through their effect on the general level of wages.⁹⁰

Ricardo clearly rejected utility as a measure of value in his *Proposals for an Economical and Secure Currency*. Here too he distinguished, as Smith had done before him, between price and value. But this was really spadework for the *Principles*.⁹¹

The opening *Principle* enunciates that the value of a commodity depends on the relative quantity of labour necessary for its production, and not on the greater or less compensation which is paid for that labour.⁹² He follows up Smith's distinction between use- and exchange-value, insisting, however, that utility is absolutely essential for exchange-value.⁹³ At the outset, he confesses that his law of value would apply only to those commodities which could be produced by human labour and which are produced competitively.⁹⁴ Goods, the demand for which is related to their scarcity, would be exceptions to this law.

Before proceeding to this law of value, Ricardo criticizes Smith's own contribution to the subject. As was to be expected, he taxed Smith for establishing two measures of value. He criticized the dichotomy by which

can have its full effect, and the production of the commodity be not limited by nature, as in the case with some wines, the difficulty or facility of their production will ultimately regulate their exchangeable value'. op. cit., IV, pp. 19-20.

⁹⁰ 'In all countries, and all times, profits depend on the quantity of labour requisite to provide necessaries for the labourers, on that land or with that capital which yields no rent'. Ibid., I, p. 126.

⁹¹ *The Principles of Political Economy and Taxation*, was published in 1817.

⁹² 'The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production, and not on the greater or less compensation which is paid for that labour'. Ibid., I, p. 11.

This is the section heading of the first chapter of the *Principles*. It is not found, however, in the first edition of 1817, but appears in both 2nd (1819) and 3rd (1821) editions.

⁹³ 'Utility... is not the measure of exchangeable value, although it is absolutely essential to it'. Ibid.

Meek rightly notes that 'Ricardo's conclusions that utility is essential to exchange value is based on a definition of utility which relates it to the capacity of a commodity to contribute in some way to our gratification. His rejection of utility as the measure of exchangeable value, however, is based on Smith's paragraph which impliedly relates utility to a scale of normal need'. Meek, op. cit., p. 97, footnote 4. Cf. Ricardo: *Principles*, Chap. XX.

⁹⁴ He regards these commodities as those that 'can be increased in quantity by the execution of human industry, and on the production of which competition operates without restraint'. Ricardo: *Works*, I, p. 12.

the value of output was reckoned according to the amount of *commandable labour* and that of the input according to the amount of labour required to produce it. He was against Smith's assumption of *commandable labour* as an invariable measure of value, since labour is itself subject to fluctuations. The value of labour would then be as variable as the market itself; and not only in itself as a commodity, but also in its constituents, for market changes vary the price of foods and other necessities which the worker buys through his wages.⁹⁵

Ricardo states that Smith, while appreciating the quantity of labour necessary for acquiring objects as a measure of value, yet limits its application to that early stage of society when men were direct producers;⁹⁶ 'as if', Ricardo adds, 'when profits and rent were to be paid, they would have some influence on the relative value of commodities, independent of the mere quantity of labour that was necessary to their production'.⁹⁷ It was up to him to show that the distribution of the national income did not affect the value of the commodity.⁹⁸ One may note at this stage that Ricardo was not clear about *relative value*. At one place, he considers it as exchange value determined by labour time;⁹⁹ and in another place, as the variation of value between two commodities, or *comparative value*.¹⁰⁰ Bailey criticised him harshly for this confusion¹⁰¹ and Marx followed suit.¹⁰²

⁹⁵ 'Is not the value of labour equally variable; being not only affected, as all other things are, by the proportion between the supply and demand, which uniformly varies with every change in the condition of the community, but also by the varying price of food and other necessaries, on which the wages of labour are expended?' *Ibid.*, p. 15.

⁹⁶ Cf. Smith, *op. cit.*, I, p. 52.

⁹⁷ Ricardo, *op. cit.*, VII, p. 377.

⁹⁸ 'It is of importance, therefore, to determine how far the effects which are avowedly produced on the exchangeable value of commodities, by the comparative quantity of labour bestowed on their production, are modified or altered by the accumulation of capital and the payment of rent'. *Ibid.*, I, p. 23, footnote.

⁹⁹ 'It is the comparative quantity of commodities which labour will produce that determines their present or past relative value'. Ricardo, *Principles*, p. 9.

Marx interprets this rightly as follows: '*Relative value* here means nothing other than exchange value determined by labour time'. Marx, *op. cit.*, p. 203.

¹⁰⁰ Marx refers us to this example: 'Two commodities vary in relative value, and we wish to know in which the variation has really taken place'. Marx, *Ibid.*

¹⁰¹ Cf. Bailey: *A Critical Dissertation on the Nature, Measures and Causes of Value: chiefly in reference to the writings of Mr. Ricardo and his followers*. London, 1825.

¹⁰² Marx explains in detail differences in Ricardo's terminology, especially about *absolute value*, and concludes that Ricardo *very often loses sight of this real or absolute value* and keeps in mind only *relative* or comparative value. Cf. Marx, *op. cit.*, pp. 208-210.

Principally, however, Ricardo regarded relative labour in the first sense, which was the foundation of his inquiry. He wanted to see how far this foundation could be applied to the returns of the capitalist, from profits, and of the landowners from rent. His analysis led him to conclude that Smith was wrong in stating that commodities tended to rise in price when wages are increased, with the consequent fall in the rate of profit. A change in the proportion of the distribution of income in the form of profits and wages, would leave the relative value of commodities, including money, unaltered.¹⁰³

He concluded, moreover, that a decrease in the rate of profit, consequent upon a rise in wages, would bring about an absolute fall in the price of those commodities in the production of which fixed capital had in any way been employed. Rises in wages and falls in profit not affecting prices, the law of value which Smith had limited to primitive society was therefore proved applicable to modern production. It could be applied just as it had been postulated by Smith. The labour theory, Ricardo triumphantly emphasizes, was a scientific measure of value. A theory of distribution of income could be fully worked on it.

In the third edition of the *Principles* Ricardo added some comments on the invariability of value.¹⁰⁴ He believes that invariability of value could only dwell in a commodity which always required the same exact quantity of labour to produce it; 'of such a commodity', he states, 'we have no knowledge, and consequently are unable to fix on any standard of value'.¹⁰⁵ He agrees with Malthus, in this edition, that he had been incorrect in excluding a rise in *all* commodities after a rise in wages. Malthus had shown¹⁰⁶ that there existed a class of commodities, for the production of which little or no fixed capital had been employed, and which brought in quick returns. The price of this class of commodities would rise with the rise in wages. Between this class and that other class for the production of which a large amount of fixed capital had been used, and the returns from which were slow, there was a small borderline class, Malthus had

¹⁰³ Ricardo believed he was in this way superceding Smith, who had held that a change in the price of corn would lead to a variation of the price of other commodities.

¹⁰⁴ It is true that at certain moments, Ricardo was not quite satisfied with his theory, expressing these doubts in his well known letter to McCulloch (Cf. *Works*, VIII, pp. 191-7). But apart from this, there seems to be no foundation for the belief that Ricardo eventually rejected his theory. Mr. Sraffa in his introduction to the *Principles* states: 'The theory of edition 3 appears to be the same, in essence and in emphasis, as that of edition 1'. *Works*, I, p. xxxviii.

¹⁰⁵ *Ibid.*, I, p. 17, footnote.

¹⁰⁶ Cf. Malthus: *Principles*. (1820).

stated in which the rise or fall in wages is exactly compensated by a fall or rise in profits.

Ricardo agreed with Malthus' main contention, and the idea of the borderline class led him to investigate the possibilities it afforded for his invariable measure of value. If this *measure* required not only the same quantity of labour at all times to produce it, but also that it be produced on the border between the extremes of high and low *proportions* and *durabilities* of capital, the invariable measure would have, in practice, a greater degree of stability.¹⁰⁷

However, he still held fast to the idea that in a rise in wages, the price of most commodities would not alter, and that the cause of variation in commodities was mainly the amount of labour necessary to produce them.¹⁰⁸ He pointed out again that no measure of value can be perfectly invariable, for even if a measure could be found requiring always the same quantity of labour to produce it, it would still be affected by the different proportions of fixed capital which might be necessary to produce it. Again, differences in the durabilities of the capital used in production could affect its invariable standard. In practice, one had to choose a commodity lying in the mean between these extremes, and Ricardo fell for gold.

Ricardo turned again to the problem of relative value, but considered under a second aspect, in his papers on *Absolute Value and Exchangeable Value*. As has been just said, he had wanted to find the nearest possible measure for absolute value. Such a measure unaffected, to the greatest extent possible in practice, by changes in wages would be the best obtainable instrument. Any commodity's *real* value would be measured in terms of it, for the accompanying accidents of wages would be established in absolute terms of reference: the quantity of embodied labour contained in each.

It would seem, then, that Ricardo regarded labour as the real measure of value, and his insistence on this central tenet intrigued Marx to deeper elaboration. The latter was to attempt to solve many of Ricardo's difficulties by substituting labour-power instead of labour as the source of value. Marx felt sure that if Ricardo had made this essential distinction, he would have reached the same conclusions of *Capital*.¹⁰⁹

¹⁰⁷ Cf. Ricardo, op. cit. VIII, pp. 191-3. See Meek op. cit., pp. 108-9.

¹⁰⁸ Cf. Ricardo, op. cit., I, p. 36.

¹⁰⁹ Marx writes: 'He (i.e. Ricardo - A.'s Note) should have spoken of labour power instead of speaking of labour. Had he done so, however, capital would also have been revealed as the material conditions of labour confronting the labourer as a power that had become independent of him. And capital would at once have

Ricardo hardly says anything about the social character of labour. But I believe his efforts in finding an invariable measure of value in embodied labour account for a large share of Marx's research in the field. Ricardo had begun with Smith, but had superceded his position by postulating that the determination of value by labour-time was the scientific approach to a study of capitalist accumulation. His theory of value was much more integrated than Smith's, giving the labour theory its first scientific formulation. It has its shortcomings; as Marx observed, its mistakes are due to the fact that often intermediate links are skimmed over, and that Ricardo tries to establish through a direct approach that economic categories are consistent with one another.¹¹⁰

Still, it was a notable advance. It was left to Marx to carry the theory to its last consequences, integrating it in his dialectical materialism in the marriage-feast of Theory and Praxis.

TRANSITION TO MARX

When Ricardo died in 1823, few economists were still toying with the idea that human labour formed part of the economic value of commodities. Six years later, Samuel Read spoke of *the almost universal rejection of labour as the standard*.¹¹¹ Torrens and Bailey, among others, criticized Ricardo's concept of absolute value. Malthus and his followers, as well as those of Lauderdale, strongly objected to Ricardo's contention that supply and demand did not concern value. Moreover, a rising group of

been revealed as a *definite social relationship*'. Marx: *Theories of Surplus Value*, p.302.

Ricardo's intellectual closeness to Marx in regarding labour as the criterion of economic value is perhaps best expressed in this passage:

'I may be asked what I mean by the work value, and by what criterion I would judge whether a commodity had or had not changed its value. I answer, I know no other criterion of a thing being dear or cheap but by the sacrifices of labour made to obtain it...

'That the greater or less quantity of labour worked up in commodities can be the only cause of their alteration in value is completely made out as soon as we are agreed that all the commodities are the produce of labour and would have no value but for the labour expended upon them'. Ricardo: *Works*, IV, p. 397.

¹¹⁰ 'Both the historical justification for this mode of procedure — its scientific necessity in the history of economics — and at the same time its scientific inadequacy, can be seen at the first glance. It is an inadequacy which not only shows itself (from a formal standpoint) in the mode of presentation, but leads to erroneous results, because it skips necessary intermediate links and tries to establish *direct* proof of the consistency of economic categories with each other'. Marx, op. cit., pp. 201-2.

¹¹¹ Samuel Read: *An Inquiry into the Natural Grounds of Right etc.* (1829), p. viii, footnote.

economists was working on utility as a new measure of value, and the possibilities this field opened up left the labour theory in abeyance, till its renaissance at the hands of Marx.

Objections which have now become classical were raised, not without success, against Ricardo. Reference was made to commodities which were repositories of economic value without any human labour being expended on them. Again, the value of many commodities increased in proportion to the years they were left untouched by human hand – as, for example, old-vintage wine, a problem which had put Ricardo himself at bay.¹¹²

The labour theory drew on it greater unpopularity, one may say, because of its political connections. Radical Socialists of the period, especially after the repeal of the Combination Laws in 1824, had found it convenient to speak of labour as the source of economic value. Conservative reaction was immediately forthcoming, and the doctrine was regarded as a potential danger to the good order of society.¹¹³

Those economists who had a wider outlook could not fail to consider the effects of such a value-theory in the long-run. Carried to its logical consequences, it could uproot society. Which, of course, was precisely what Marx meant to do.

¹¹² Cf. Ricardo, *op. cit.*, IX, pp. 330-1.

¹¹³ John Cazenove wrote in 1832: 'That labour is the sole source of wealth seems to be a doctrine as dangerous as it is false, as it unhappily affords a handle to those who would represent all property as belonging to the working classes, and the share which is received by others as a robbery or fraud upon *them*. Cazenove: *Outlines of Political Economy*, p. 22, footnote. Cf. Meek, *op. cit.*, pp. 124ff.