STUDIES IN THE LABOR THEORY OF VALUE

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CHAPTER THREE

DAVID RICARDO AND THE DEVELOPMENT OF THE LABOUR THEORY

I. Some General Considerations

The embryo labour theory of value put forward in the \textit{Wealth of Nations}, as we have seen, was in its origins the product of a capitalist society in which the social division of labour was being considerably developed and extended.\(^1\) Once the theory had been formulated, however, its further evolution necessarily became to a certain extent independent of this society. In other words, like all theories of this type, it became the subject of a process which is commonly known as "internal development".

But the "independence" which such a theory acquires in the course of its "internal development" must usually be to quite a large extent relative and limited. The particular lines along which the labour theory was developed after the publication of the \textit{Wealth of Nations} can hardly be explained purely in terms of the intellectual contemplation and logical analysis of the original theory by subsequent economists. It is true that development of this sort cannot occur \textit{without} intellectual contemplation and logical analysis—but one does not and cannot contemplate and analyse in a vacuum. However much the thinker may imagine that he is operating exclusively in an inner world of pure thought and logic, the outer world necessarily intrudes, wearing a number of different and often unexpected disguises.

For example, the "internal development" of an embryo theory is frequently marked by amendments designed to make it appear self-consistent. These amendments often appear to the investigator who introduces them simply as the end-products of a process of logical analysis with which external reality has very little to do. But in many cases what the investigator is in actual fact doing is to strip away from the theory certain survivals of outmoded concepts, reflecting former states of reality, which are still entangled in it. No new theory is ever entirely new: it is necessarily constructed to some extent from ideological material bequeathed by earlier generations, and in its embryo form it is therefore quite likely to embody the remnants of concepts more appropriate to earlier social conditions, whose presence may make the theory appear logically inconsistent or self-contradictory to later thinkers. The analytical process whereby these inconsistencies or contradictions are removed may seem to these thinkers to be purely logical in character, but in actual fact it may mark an important step in the direction of making the theory a more faithful expression and reflection of contemporary reality. Thus when Ricardo accused Smith of erecting two inconsistent "standard measures of value",\(^1\) and discarded one of them, he no doubt believed that he was merely correcting a logical error, whereas in actual fact he was also purging the Classical theory of value of the outmoded idea—a product of earlier centuries—that value is dependent upon wages-cost.

Then again, the development of an embryo theory such as that which we are now considering is obviously dependent to a very large extent upon the nature of the main problems with which the investigator chooses to concern himself. The very fact that this theory rather than another is selected for development and refinement, while the choice may possibly appear to the investigator to be purely a matter of abstract logic or common sense, may actually reflect a recognition (intuitive or otherwise) that this theory, when further developed, is likely to be useful in connection with the particular problems upon which he has decided to concentrate. The actual lines along which the theory is developed, too, while again possibly appearing purely as the result of a logical process, may in fact be greatly influenced by the nature of the problems in connection with which it is to be used. The way in which the tool is fashioned will naturally depend upon the tasks it is meant to perform. And, of course, the range of possible choices of problem at any given time (if not the actual choice itself) is in the last analysis presented to the investigator by the social environment in which he works.

Classical political economy was primarily concerned to assist those policy-makers who aimed to increase the wealth of nations.\(^2\)

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1 Naturally I mean by this no more than that the emergence of such a society was a \textit{precondition} of the formulation of the labour theory and a potent influence on the \textit{manner} in which it was formulated and developed. As should have been made clear in the first chapter, the labour theory was not just "another" theory of value, exuded, as it were by a new form of society. It arose as the result of attempts to provide a more useful explanation of economic reality than the older theories had been able to do, and did in fact represent a considerable scientific advance.

1 See below, pp. 98 ff.

Its main task was to discover the relevant laws relating to the origin and increase of wealth and to propound them in such a way as to define the “areas of decision” open to the policy-makers. In the late eighteenth and early nineteenth centuries, as was only natural, the majority of economists regarded the accumulation of capital as the basic cause of the increase of wealth, and their theoretical systems were therefore primarily designed to illuminate the nature and effects of the accumulation process. The main problem, however, presented itself to Smith and Ricardo respectively in two rather different ways. Smith wished above all to attack certain social institutions which still hindered accumulation, and certain social attitudes (such as the old idea that spending is good for trade) which still discouraged it. For this purpose, all that was really required was a general theoretical analysis of the accumulation process and an account of the manner in which accumulation and the increase of wealth were related. The question of the effect of accumulation upon the distributive shares could be regarded as a secondary and subordinate one. To Ricardo, on the other hand, the question of the effect of accumulation upon the distributive shares—and in particular upon the proportions in which the social surplus was distributed between the landlords and the capitalists—came to assume much greater importance. For in Ricardo’s time, as Professor Hollander has pointed out, there was a widespread recognition of the fact “that England’s resisting power depended upon the flourishing condition of her manufactures and upon the maintenance, undiminished, of industrial profits”. This sentiment, which “pervaded business and financial circles and became the veritable milieu of economic thought”, was based on the assumption that profits constituted by far the most important source of capital accumulation. Other things being equal, then, it was better that the social surplus should consist of profit rather than of rent. To define the appropriate “areas of decision”, therefore, it was necessary to work out, in much more detail than Smith had done, the laws which showed how rent and profit would behave in “the natural course of things” as capital accumulated and society progressed in wealth and prosperity. This was a problem with important political implications at the time, since the struggle between the landlords and the industrial capitalists over such vital issues as the Corn Laws and parliamentary reform was growing in intensity. To solve this problem a theory of value was evidently required; and the sequel will show how closely the development of Ricardo’s ideas on value theory was associated with his attempts to find an adequate solution of it.

Finally, the development of such a theory is often marked by amendments deliberately designed to bring it into closer correspondence with the facts. Not only must the logical inconsistencies be dealt with; not only must the theory be developed with specific reference to the particular problems which it is desired to solve with its aid; but it is also necessary to remove any inconsistencies which may emerge between the theory and the facts. And here again the external world necessarily intrudes, simply because the facts themselves are apt to change. When the facts change the theory must, if possible, be adapted to fit them. At certain stages of development, therefore, it may become necessary to attempt to disentangle the essence of the theory from the particular context of problems and facts in which it has previously appeared and to reapply it to a new situation. I am speaking here, of course, of real inconsistencies which emerge between an old theory and new facts. The process whereby apparent inconsistencies between a theory and the facts which it is being used to explain are removed is very different. Ricardo, for example, observing that in the real world the equilibrium price ratios of the majority of commodities were not in fact precisely equal to their embodied labour ratios, characterised this as a “contradiction”, and attempted—unsuccessfully—to resolve it. Marx, however, building on Ricardo’s work, was able to deal satisfactorily with this particular problem; and it would be wrong to suggest that developments in the external world since Ricardo’s time were directly or primarily responsible for his ability to do so.

There is one other general point, also of importance in the consideration of Ricardo’s development of the labour theory, which may conveniently be mentioned here. The development of the labour theory in the Classical period was intimately associated with the development of a new method of political economy. Most of the economists of the seventeenth century had begun their investigations by considering what Marx called the “living aggregate”—e.g., “population, nation, state, several states, etc.” By breaking down this aggregate into “less and less complex abstractions”, they usually

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arrived in the end at “certain leading, abstract general principles, such as division of labour, money, value, etc.” Then, as Marx put it,

“as soon as these separate elements had been more or less established by abstract reasoning, there arose the systems of political economy which start from simple conceptions, such as labour, division of labour, demand, exchange value, and conclude with state, international exchange and world market.”

In the early chapters of the Wealth of Nations, for example, we find a deliberate attempt to work upwards from “simple conceptions, such as labour, division of labour, demand, exchange value” towards the “living aggregate”. And Smith’s Classical successors—in particular Ricardo—followed in his footsteps in this respect. As might be expected, the development of the new concept of value—the most general and therefore the most comprehensive expression of the economic conditions of commodity production”, as Engels once called it—greatly encouraged and was in turn encouraged by the development of this new method of political economy.

2. Ricardo’s Treatment of Value Prior to 1817

During the first few years in which he wrote on economic questions, Ricardo seems to have concerned himself primarily with currency problems and only incidentally with matters of general theory. In particular, of course, he was interested in the analysis of the currency and exchange phenomena which followed the suspension of specie payments by the Bank of England in 1797. Concentrating as he did on problems of this type, he could hardly have been expected to give more than passing attention to the question of the general causes of changes in the relative values of commodities. Nevertheless it is possible to reconstruct some of his early views on the latter question from the material which he wrote in this period.

On the first page of his pamphlet, The High Price of Bullion (1810), Ricardo puts forward a crude theory of value:

“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.”

2 Anti-Dühring (English edn.), p. 340.
3 Works, III, p. 52.

But naturally it is not this “intrinsic value” which primarily interests him at the present stage of his researches. He is concerned at the moment to discuss the causes of the depreciation of the paper currency. The paper currency, however, is (or ought to be) the representative of a “standard measure of value”, and “it can only be by a comparison to this standard that its regularity, or its depreciation, may be estimated”. Here, then, in a rather special context, we are first introduced to the vexed question of the “invariable measure of value”. “A measure of value”, says Ricardo in a footnote,

“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.”

Here certain implicit assumptions are made which were later to prove of some importance in connection with Ricardo’s development of the theory of value. If the exchange value of a commodity be defined, with Smith, as the power of purchasing other goods which it conveys to its owner, what does it mean, exactly, to say that the value of a commodity used as a measure of this exchange value is “tolerably fixed”? All it can mean is that, if there is an alteration in the rate at which the commodity whose exchange value is being measured exchanges on the market for the commodity being used as a measure, then this alteration can be said to be due to some cause operating solely on the commodity being measured. To say this, we must be able to assume that “value” is not merely a relation (as Bailey was later to suggest), but that it is a quality which somehow inheres in or is attached to each individual commodity and which can therefore alter quite independently of changes in the value of other commodities. Thus when two commodities alter in relative (or “exchangeable”) value, we must be able to assume that the alteration is the net resultant of changes which have taken place in the individual “values” of one or both of the commodities, each considered in isolation.

The nature of Ricardo’s main enquiries at this time did not call

for any very profound researches in this field, and there is no indication in his writings that he then considered that anything was really lacking in Smith's account of value. In a few places, however, Ricardo's early statements foreshadow the lines which his subsequent enquiries were to follow. In his Notes on Bentham (1810-11), for example, at a point where Bentham expresses the opinion that all value is founded on utility, Ricardo comments:

"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."1

And in other places we find the beginnings of the important distinction which Ricardo was later to make between wealth and value. "The rise of prices and the increase of riches", he says, "have no necessary connection. Machinery adds to the real riches of a community at the same time that prices fall."2 But Ricardo still accepts without question Adam Smith's doctrine that a rise in wages will lead to a rise in prices,3 just as he still accepts Smith's view that profits are lowered by the competition of capitals.4 When considered in the light of subsequent events, the years before 1815 were notable rather for the emergence of the basic problem of distributional shares to prominence in Ricardo's mind, than for the development of the theory of value which was destined to play such an important part in the solution of this problem.

Ricardo's Reply to Bosanquet was published in January 1811, and his next published work, the Essay on the Profits of Stock, did not appear until February 1815. Apart from the first four or five months of 1811, during which Ricardo apparently wrote the appendix to the fourth edition of his High Price of Bullion and a number of manuscript notes on monetary problems, the gap has to be filled by referring to Ricardo's correspondence—in particular, his correspondence with Malthus, which dates from June 1811. For more than two years this correspondence was concerned almost exclusively with matters arising directly out of a criticism by Malthus (in the Edinburgh Review of February 1811) of Ricardo's two currency pamphlets. The main question at issue was whether anything other than the "redundant" or "deficient" state of the currency could influence the rate of exchange. Ricardo argued that a "relatively redundant currency" is the "invariable cause" of an unfavourable balance of trade.1 Malthus agreed that "the effects of a redundancy of currency upon the exchange are sure", but maintained that "they are slow compared with the effects of those mercantile or polit[ical] transactions, not connected with the question of currency".2 Eventually, however, the correspondence (and no doubt the personal conversations) between the two men took a different turn, and an important new problem emerged. Unfortunately two key letters from Malthus written at this crucial point in the discussions are among those which are still missing,3 but judging from Ricardo's replies it seems that Malthus probably raised a new point—that since 1793 there had been both an increase in capital and an increase in the rate of profit, whereas according to the orthodox Smithian theory, which was still accepted by Ricardo as well as by Malthus, an increase in capital should have been accompanied by a fall in the rate of profit. This fact could only be explained, Malthus may have argued, by recognising that there had been an increase in the demand (particularly from overseas) for British commodities, and that this had raised the value of these commodities. In that case, the concurrent increase in the quantity of money—and thus the "relatively redundant currency"—might well have been the cause of the increase in value (as Ricardo had in effect been maintaining) but rather the effect of it.4 At any rate, Ricardo apparently felt himself obliged at this stage to provide an alternative explanation of the fact that an increase in capital had been accompanied by an increase in profits. "I have little doubt", he wrote,

"that for a long period, during the interval you mention, there has been an increased rate of profits, but it has been accompanied with such decided improvements of agriculture both here and abroad,—for the French revolution was exceedingly favorable to the increased production of food, that it is perfectly reconcilable to my theory. My conclusion is that there has been a rapid increase of Capital which has been prevented from shewing itself in a low rate of interest by new facilities in the production of food."5

Here the Smithian idea that the rate of profit tends to be lowered by the competition of capitals is married with the current idea, then

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2 Ibid., VI, p. 82.  
3 Those to which Ricardo's letters of 10 August and 17 August 1813 are replies. See ibid., pp. 92-5.  
4 Cf. the interpretation given by G. S. L. Tucker in his article "The Origin of Ricardo's Theory of Profits" (Economics, November 1974). This article appeared after the present chapter was written.  
5 Works, VI, pp. 94-5.
very prevalent in business circles, that a decrease in the price of corn (per medium of its effect on wages) means higher profits.\textsuperscript{3} From this time onwards, the question of the effect of an increase in capital on the rate of profit was destined to be one of Ricardo’s primary concerns.

Ricardo’s personal discussions with Malthus on this topic continued (although their correspondence directly relating to it was not resumed until June 1814), and by February 1814 his views had developed to the point where he was able to set them down on paper. The manuscript of these “papers on the profits of Capital”\textsuperscript{2} has not been found, but it is evident, from a description which Ricardo gave to Trower of the “subject in dispute” between himself and Malthus, that they must have contained the essential elements of the theory of profit which Ricardo was later to put forward in the first part of his Essay on Profits. “I contend”, wrote Ricardo on 8 March 1814,

“that the arena for the employment of new Capital cannot increase in any country in the same or greater proportion than the Capital itself, unless Capital be withdrawn from the land[,] unless there be improvements in husbandry,—or new facilities be offered for the introduction of food from foreign countries;—that in short it is the profits of the farmer which regulate the profits of all other trades,—and as the profits of the farmer must necessarily decrease with every augmentation of Capital employed on the land, provided no improvements be at the same time made in husbandry, all other profits must diminish and therefore the rate of interest must fall. . . . Nothing, I say, can increase the profits permanently on trade, with the same or an increased Capital, but a really cheaper mode of obtaining food.”\textsuperscript{3}

Here, for the first time, Ricardo substitutes a new explanation of the tendency of the rate of profit to fall, based on the law of diminishing returns in agriculture,\textsuperscript{4} for that of Adam Smith, which he had hitherto accepted without serious question.

At this time, then, Ricardo was arguing that the diminishing returns in agriculture which normally accompanied accumulation (in the absence of “improvements in husbandry”) would necessarily operate to reduce the profits of the capitalist farmer, and that they would therefore also operate to reduce the general rate of profit on capital, since “it is the profits of the farmer which regulate the profits of all other trades”. Mr. Sraffa has suggested that the “rational foundation” of this principle of the determining role of agricultural profits is to be found in Ricardo’s assumption that in agriculture the same commodity, corn, constitutes both input and output, so that the rate of agricultural profit is independent of price changes. Thus if the rate of profit is to be equal in all trades, “it is the exchangeable values of the products of other trades relatively to their own capitals (i.e., relatively to corn) that must be adjusted so as to yield the same rate of profit as has been established in the growing of corn”.\textsuperscript{1} It does seem quite possible that Ricardo then had something like this in mind. If one starts off with this “corn-ratio” theory of agricultural profits, there will undoubtedly be a temptation, when one is discussing the causes of a secular decline in the general rate of profit, to speak of agricultural profits as leading or regulating this decline.\textsuperscript{5}

The arena for the employment of a theory of profit was greatly increased about this time by the growth of public interest in the Corn Law question, and when the correspondence between Ricardo and Malthus was resumed in June 1814 it was this question which was uppermost in their minds. When Malthus argued, in a letter which is still missing, that it was by no means certain that restrictions on the importation of corn would tend to lower the rate of profit, Ricardo replied by putting forward (\textit{inter alia}) the following general proposition:

“The rate of profits and of interest must depend on the proportion of production to the consumption necessary to such production,—this again essentially depends upon the cheapness of provisions, which is after all, whatever intervals we may be willing to allow, the great regulator of the wages of labour.”\textsuperscript{2}

Malthus argued in reply that “this rate of production, or more definitely speaking, the proportion of production to the consumption necessary to such production, seems to be determined by the quantity of accumulated capital compared with the demand for the products of capital, and not by the mere difficulty and expense of producing

\textsuperscript{1} Works, I, p. xxxii.

\textsuperscript{2} This proposition is dependent for its plausibility upon the further assumption that the corn-margin is fixed by the level of the population and its subsistence needs at any given time. Cf. Works, IV, p. 24, footnote.

\textsuperscript{3} Ibid., VI, p. 108.

\textsuperscript{4} Ricardo had long been familiar with the concept of diminishing returns: cf. Works, III, p. 287.
corn". Therefore, since restrictions on importation (as Malthus believed) "must necessarily be attended with a diminution of capital" it seemed to follow that there would be a tendency for these restrictions to cause profits to rise. Ricardo replied, first, that effective demand "cannot augment or long continue stationary with a diminishing capital" (thus initiating a well-known debate on "Say's Law"); and second, that a diminution of capital would in fact operate on profits by way of its effect upon "the state of the cultivation of the land", rather than by way of the mechanism which Malthus had postulated. This phase of the controversy (which ended in February 1815 with the publication of Malthus's two pamphlets on rent and the Corn Laws and Ricardo's Essay on Profits) culminated in the following statement by Ricardo of his views on the manner in which accumulation and diminishing returns operated on profits:

"Accumulation of capital has a tendency to lower profits. Why? because every accumulation is attended with increased difficulty in obtaining food, unless it is accompanied with improvements in agriculture; in which case it has no tendency to diminish profits. If there were no increased difficulty, profits would never fall, because there are no other limits to the profitable production of manufactures but the rise of wages. If with every accumulation of capital we could tack a piece of fresh fertile land to our Island, profits would never fall."

And in the same letter Ricardo recognised, significantly enough, that "the consideration of money value" might be the foundation of the difference between himself and Malthus on the Say's Law question.

Up to this point, Ricardo had used the law of diminishing returns in agriculture only in connection with the theory of profit, and as far as we know had not yet attempted to apply it to the theory of rent. The extant correspondence between Ricardo and Malthus up to January 1815 contains no specific reference to rent, although in a letter of 30 August 1814 Ricardo remarked that the report of the Lords committee on the corn question, which had just appeared, "discloses some important facts", and there is a reference in a letter of 6 February 1815 which shows that at least one aspect of the subject had already been discussed between them. In any event, upon reading Malthus's Inquiry into Rent Ricardo was able to put his own ideas down on paper in a very short time, and his Essay on Profits, in which his own theory of profits was combined with a variant of Malthus's theory of rent, appeared only three weeks after the Inquiry.

The main theoretical argument of the Essay, which is designed to explain the effect of the accumulation of capital upon the proportions in which the social surplus is distributed between rent and profit, is developed in two stages. In the first, the analysis is conducted on the assumption that the price of corn and the wages of labour remain stationary. As capital accumulates and population increases, it is necessary to resort to less fertile or less well-situated land (or to employ additional capital on the land already being cultivated) in order to provide more food. The law of diminishing returns comes into operation, and as the margin extends the amount of resources required to produce a unit of raw produce on the marginal land gradually increases. By a familiar argument it is shown that rent will then arise (and gradually increase) on the non-marginal land, and that the rate of profit in agriculture will decline. And since "it is the profits of the farmer which regulate the profits of all other trades", this will cause a decline in the general rate of profit on capital. In the second stage of the argument, the assumption that the price of corn and the wages of labour remain stationary is dropped, and the manner in which accumulation and diminishing returns operate on profit by way of their effect upon wages is considered. Ricardo argues that "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". The effects worked out on the assumption of stationary prices and wages, therefore, are reinforced when the variations in prices and wages which must actually accompany accumulation are taken into account.

As an integral part of the second stage of his argument, Ricardo put forward a rudimentary theory of exchange value which directly associates the value of a commodity with the difficulty or facility of its production:

"The exchangeable value of all commodities, rises as the difficulties of their production increase. If then new difficulties occur in the

1 Works, VI, p. 111.  
2 Ibid., VI, p. 116.  
3 Ibid., VI, p. 114.  
4 Roughly, the idea that "supply creates its own demand".  
6 Ibid., VI, p. 162.  
7 Ibid., VI, p. 164.  
8 See Sraffa's account in ibid., IV, pp. 7-8.  
9 Ibid., VI, p. 130.
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. On the contrary, facilities in the production of corn, or of any other commodity of whatever kind, which shall afford the same produce with less labour, will lower its exchangeable value. Thus we see that improvements in agriculture, or in the implements of husbandry, lower the exchangeable value of corn; improvements in the machinery connected with the manufacture of cotton, lower the exchangeable value of cotton goods; and improvements in mining, or the discovery of new and more abundant mines of the precious metals, lower the value of gold and silver, or which is the same thing, raises the price of all other commodities. Wherever competition 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."

Here for the first time in Ricardo’s work the basic idea lying behind the mature theory of value which he was to develop in the "Principles" is set forth. Its formulation in the "Essay" is not unambiguous; but at any rate Ricardo had sufficient confidence in it to reject his earlier view—which he had held at least as late as July 1814—that "the price of corn regulates the prices of all other things". And Ricardo’s rejection of this view was of course a cornerstone of the argument of the "Essay", since if the price of corn in fact regulated the prices of all other things profits might not fall with a general rise in wages.

In the "Principles", the argument that “it is the profits of the farmer which regulate the profits of all other trades” is dropped, although, as Mr. Streatfeild puts it, “the more general proposition that the productivity of labour on land which pays no rent is fundamental in determining general profits continues to occupy a central position”. Accumulation and diminishing returns are assumed to act on profits through the medium of their effect on the general level of wages. “In all countries, and all times,” says Ricardo, “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.” Or, as he states it earlier, profits depend upon the “proportion of the annual labour of the country [which] is devoted to the support of the labourers”. Here Ricardo’s old proposition concerning the dependence of profit upon “the proportion of production to the consumption necessary to such production” has been in effect re-cast in terms of the labour theory of value, consumption being valued in terms of the quantity of labour required to produce the “necessaries for the labourers”, and production in terms of the quantity of labour required to produce the total national product.

Between February 1815 and the time, at the end of that year, when he began serious work on the "Principles", Ricardo’s theory of value underwent a certain amount of further development. Various aspects of the value problem began to present themselves with increasing frequency in his correspondence with Malthus, and in August-September there was an interesting exchange of opinions with Say on the question of the relation between value and utility. In August and September, too, he wrote his "Proposals for an Economical and Secure Currency", in which he gave rather more detailed consideration to the value problem than he had done in his earlier monetary writings. He incorporated the idea of the dependence of value upon "difficulty or facility of production"; he made a clear distinction between price and value, specifically rejecting utility as a measure of the latter; and he emphasised the difficulties involved in detecting, when two commodities varied in relative value, in which of the two the variation had its origin.

But the developments which occurred when Ricardo began work on the "Principles", under the schoolmasterly eye of James Mill, were, of course, very much more important. At the end of December he is writing to Mill saying:

“I know I shall be soon stopped by the word price, and then I must apply to you for advice and assistance. Before my readers can understand the proof I mean to offer, they must understand the theory of currency and of price. They must know that the prices of commodities are affected two ways one by the alteration in the relative value of money, which affects all commodities nearly at the same time,—the other by an alteration in the value of the particular commodity, and which affects the value of no other thing, excepting it enter into its composition.—This invariability

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1 *Works*, IV, pp. 19-20. Cf. *Wealth of Nations*, Vol. I, p. 35. “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.”
of the value of the precious metals, but from particular causes relating to themselves only, such as supply and demand, is the sheet anchor on which all my propositions are built; for those who maintain that an alteration in the value of corn will alter the value of all other things, independently of its effects on the value of the raw material of which they are made, do in fact deny this doctrine of the cause of the variation in the value of gold and silver.”

Mill, however, does not seem to have given a great deal of “advice and assistance” to Ricardo on questions of theory such as this, his role being mainly confined to that of adviser on matters of style and arrangement—and even on hours of work and the length of social visits. Having agreed with Ricardo that “the problem to be solved” was indeed “to tell how the events in question operate upon the relative proportions of exchangeable commodities”, Mill appears to have left him more or less to his own devices. In April 1816 Ricardo writes to Malthus that “obstacles almost invincible oppose themselves to my progress” and Malthus encouragingly replies that the reason for this is that Ricardo has “got a little into a wrong track”. “On the subject of determining all prices by labour”, Malthus explains, “and excluding capital from the operation of the great principle of supply and demand, I think you must have swerved a little from the right course.” Notwithstanding this fairly broad hint, Ricardo continued working along the same lines, and it was not long before he came face to face with “the curious effect which the rise of wages produces on the prices of those commodities which are chiefly obtained by the aid of machinery and fixed capital”—a problem which for a time “very much impeded” his investigations into “the question of price and value”. In November, however, Mill expressed himself as satisfied with the results of Ricardo’s work on the “general principle”. Ricardo was at last equipped with one of the basic tools necessary to deal adequately with what he had come to regard as “the most difficult, and perhaps the most important topic of Political Economy, namely the progress of a country in wealth and the laws by which the increasing produce is distributed”.

2 See Sraffa’s account in ibid., I, pp. xix-xxii.
3 Ibid., VII, p. 7.
4 Ibid., VII, p. 28.
5 Ibid., VII, p. 83. See below, pp. 103 ff.
7 Ibid., VI, p. 340.
8 Ibid., VII, p. 30.
9 Ibid., VII, p. 71.

3. The Theory of Value in the First Edition of the “Principles”

It is useful, I think, to consider the chapter on value in the first edition of Ricardo’s Principles from the point of view of the critique of Adam Smith of which it largely in effect consists. Prior to the publication of the Principles Ricardo had never had occasion to express publicly his disagreement with any aspect of Smith’s theory of value—except to the extent to which such disagreement was implicit in his opposition (in the Essay) to the idea that “the price of corn regulates the prices of all other things”. But it seems probable that he had come to appreciate the nature of what he called Smith’s “original error respecting value” at a fairly early stage in his more mature consideration of the value problem. Certainly, at any rate, he was able by the end of 1816 to recognise the extent to which Smith’s “faulty” opinions on such subjects as bounties and the colonial trade were founded on this “original error”. And it is evident from the structure of the first chapter of the Principles that the development and refinement of Ricardo’s theory of value proceeded more or less in hand with his critical analysis of Smith’s account.

The first stage of Ricardo’s critique is summed up in the section-heading with which (in the second and third editions) the first chapter of the Principles begins:

“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.”

Ricardo commences his argument under this heading by quoting Smith’s famous paragraph concerning the distinction between value in use and value in exchange. “Utility”, says Ricardo, “… is not the measure of exchangeable value, although it is absolutely essential to it.”

1 The 1st edn. appeared in 1817, the 2nd in 1819 and the 3rd in 1821.
2 Works, VII, p. 100. Cf. chapters XXII and XXV of the Principles.
3 Ibid., I, p. 11. This section-heading is not found in edn. 1 (which does not divide the first chapter into sections), but it accurately summarises the main content of the first part of this chapter in edn. 1 (up to p. 17 in the Works).
4 Ibid., I, p. 11. It is interesting to note that Ricardo’s conclusion 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”. Cf. the fuller treatment in chapter XX of the Principles; and see above, pp. 72-3.
He then goes on to make it clear that the law of value which he is going to expound applies only to "such commodities . . . as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint."1 All other commodities—those "the value of which is determined by their scarcity alone" and which "form a very small part of the mass of commodities daily exchanged on the market"2—are relegated to the position of lesser breeds without the law. How, then, are the values of the relevant commodities determined?3 Ricardo quotes a number of passages from the Wealth of Nations which are claimed to support the view that, at least in "the early stages of society", it is "the quantity of labour realized in commodities" which regulates their exchangeable value.4 Abstracting for the moment from the question of whether this "rule" does in fact operate (as Smith believed) only in "the early stages of society", Ricardo embarks immediately upon his polemic against Smith's "commandable labour" measure. "Adam Smith", says Ricardo,

"who so accurately defined the original source of exchangeable value, and who was bound in consistency to maintain, that all things became more or less valuable in proportion as more or less labour was bestowed on their production, has himself erected another standard measure of value, and speaks of things being more or less valuable, in proportion as they will exchange for more or less of this standard measure. Sometimes he speaks of corn, at other times of labour, as a standard measure; not the quantity of labour bestowed on the production of any object, but the quantity which it can command in the market: as if these were two equivalent expressions, and as if because a man's labour had become doubly efficient, and he could therefore produce twice the quantity of a commodity,

he would necessarily receive twice the former quantity in exchange for it."5

This statement is hardly fair to Smith, who never really spoke of embodied labour and commandable labour "as if these were two equivalent expressions". But Ricardo's main objection to the commandable labour measure is not affected by this exaggeration. What Ricardo really wanted to attack was Smith's assumption that the quantity of commandable labour can be usefully regarded as an "invariable" measure of value, when in fact labour is palpably "subject to as many fluctuations as the commodities compared with it".6 Gold and silver and corn, says Ricardo, are subject to fluctuations from many different causes. And, he asks,

"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?"7

If, then, Smith was wrong in talking about labour "never varying in its own value" 8 commandable labour could not be said to constitute a reliable "standard measure of value". The value of a commodity estimated in such a measure would have to be regarded as changing with every change in the compensation paid to the labourer, even though nothing at all had happened to the difficulty or facility of its production. This was a position, Ricardo's argument implied, which few people would really wish to adopt. And, what was more, if a change did occur in the difficulty or facility of its production, the commandable labour measure would not fully reflect it unless—which was very unlikely—the real wage of the labourer happened at the same time to change pari passu with his productivity.

1 Works, I, p. 12.
2 Ibid.
3 Works, I, pp. 12-13. In a subsequent section Ricardo makes it clear that "not only the labour applied immediately to commodities affect their value, but the labour also which is bestowed on the implements, tools, and buildings, with which such labour is assisted". The part labour embodied in these "implements, tools, and buildings" (and also in the raw materials used) contributes to the total value of the final product in so far as they are used up in its production. See ibid., I, pp. 22-5.
The second stage of Ricardo’s critique of Smith is summed up in the following passage:

“Though Adam Smith fully recognized the principle, that the proportion between the quantities of labour necessary for acquiring different objects, is the only circumstance which can afford any rule for our exchanging them for one another, yet he limits its application to ‘that early and rude state of society, which precedes both the accumulation of stock and the appropriation of land’; as if, 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.”

It was certainly true, as we have seen, that Smith often spoke as if the value of a commodity in modern times, as distinct from its value in the “early and rude state of society”, were determined by adding up the wages, profit and rent into which the natural price seemed to him ultimately to resolve itself. We now know that this was the source of Ricardo’s main objection to Smith’s theory of value. “Adam Smith thought”, wrote Ricardo to Mill in December 1818,

“That as in the early stages of society, all the produce of labour belonged to the labourer, and as after stock was accumulated, a part went to profits, that accumulation, necessarily, without any regard to the different degrees of durability of capital, or any other circumstance whatever, raised the prices or exchangeable value of commodities, and consequently that their value was no longer regulated by the quantity of labour necessary to their production.”

Ricardo, who was seeking for a theory of value which would be capable of application to the problem of the progressive redistribution of the national product as capital accumulation increased, could hardly have been expected to look with favour on a theory which, apart from anything else, appeared to suggest that the value of the national product might change appreciably merely as the result of a change in its distribution. The manner in which the proceeds from the sale of a commodity were divided up from time to time between the main social classes, Ricardo believed, made no difference to the value of the commodity, which, in modern as well as in ancient times, varied only when there was a change in the quantity of labour required to produce it.

The development of Ricardo’s thought along these lines dictated to a large extent the form which the earlier chapters of the Principles were to assume. Since Smith had suggested that the payment of profit and rent prevented the “rule” which regulated value in ancient times from regulating it also in modern times, it was necessary for Ricardo to show clearly that profit and rent did not in fact have this effect. Adam Smith, said Ricardo,

“has no where analyzed the effects of the accumulation of capital, and the appropriation of land, on relative value. 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.”

Ricardo, therefore, accepting the determination of value by labour time as his foundation, proceeded systematically to inquire to what extent this foundation was consistent with the payment of profit to the owners of capital and the payment of rent to the owners of land. In the first draft of the Principles, which Ricardo sent to Mill in October 1816, the logical pattern of the argument as a whole must have been rather more obvious than it was in the version finally published, since Mill commented as follows on Ricardo’s treatment:

“Your explanation of the general principle that quantity of labour is the cause and measure of exchangeable value, excepting in the cases which you except, is both satisfactory, and clear.

Your exposition and argumentation to shew, in opposition to A. Smith, that profits of stock do not disturb that law, are luminous. So are the exposition and argumentation to shew that rent also operates no such disturbance.”

1 Subject, of course, to the “modifications” which he later introduced and which will be discussed below.
2 Works, I, p. 23, footnote.
3 Cf. Marx, Theory of Surplus Value (English edn.), p. 203. The essence of Ricardo’s argument on the question of the payment of profit is contained in the passage quoted on p. 102 below.
4 Works, VII, p. 98. The “exceptions” referred to in the first paragraph are, presumably, those commodities (such as “rare statues and pictures, scarce books and coins”, etc.), the value of which, according to Ricardo, is “determined by their scarcity alone”. (See Works, I, p. 112.) Mill goes on to remark that “to this extent the disquisition is remarkably free of that sin which most easily besets you, of crowding too many points into one place; and summoning all the parts of the science at once to prove a particular point. The argument thus far is not only convincing, but clear, and easily understood.”
Unfortunately, this simple pattern was destined to be blurred by the insertion, between the arguments relating to profit and to rent, of certain material which in the first draft probably appeared in a later section. The third stage of Ricardo’s critique of Smith, about which something must now be said, was reflected in this material.

Smith, as I have already noted above, had argued that a rise in the price of corn, by way of its effect on wages, would bring about a rise in the prices of all other commodities. Ricardo had opposed this idea in his Essay on Profits, but as his theory of value developed he was able to give his opposition a rather more scientific basis than that which he had given it in the Essay. His own idea that a change in the price of corn, while it would indeed alter wages, would not thereby affect the price of any other commodity, was, in fact, as he soon came to realise, a logical corollary of the doctrine that the payment of profits does not disturb the operation of embodied labour as the determinant of value. When profits came to be paid, the produce of labour was divided up between the class which owned the means of production and the class which furnished the labour, but this did not mean that the determinant of value which used formerly to operate in the primitive community of the deer and beaver hunters now automatically ceased to operate:

“All the implements necessary to kill the beaver and deer might belong to one class of men, and the labour employed in their destruction might be furnished by another class; still, their comparative prices would be in proportion to the actual labour bestowed, both on the formation of the capital, and on the destruction of the animals. Under different circumstances . . . those who furnished an equal value of capital for either one employment or for the other, might have a half, a fourth, or an eighth of the produce obtained, the remainder being paid as wages to those who furnished the labour; yet this division could not affect the relative value of these commodities, since whether the profits of capital were greater or less, whether they were 30, 20, or 10 per cent. or whether the wages of labour were high or low, they would operate equally on both employments.”

According to this analysis, then, it appeared that a change in the proportions in which the produce was divided up between profits and wages would not affect the relative values of commodities (including the monetary commodity). Thus a change in the price of corn, while it would almost certainly bring about a change in wages, would not thereby affect the prices of any other commodity.

But Ricardo soon found that he was wrong in saying that a change in wages (and therefore in profits) would necessarily and in all cases “operate equally on both employments”. In a case where the capitals required to produce two commodities were differently constituted—for example, where one of the commodities was produced with a relatively large amount of fixed and a relatively small amount of circulating capital, while the other was produced with a relatively small amount of fixed and a relatively large amount of circulating capital—it was possible to show that a rise in wages which brought about a reduction in the rate of profit (or vice versa) would in fact affect the relative values of the commodities. This did not mean, however, according to Ricardo, that Smith was correct in saying that a rise in wages would bring about a rise in the prices of commodities in general. In actual fact, he argued, a rise in wages would cause no commodities whatever to rise in price, but would on the contrary cause an absolute fall in the prices of all commodities in the production of which any fixed capital at all was employed, this fall being greater as the proportion of fixed to circulating capital was greater.

The gist of Ricardo’s argument can be illustrated by a simple arithmetical example. Suppose that we have three commodities, A, B and C, in the production of each of which a total capital of 100 is employed. In the case of A, this 100 consists entirely of circulating capital; in the case of B it is divided equally between fixed and circulating; and in the case of C 80 is fixed and 20 circulating. We assume that all the fixed capital is used up in the particular period of production we are considering; that the circulating capital consists entirely of wages; and that the average rate of profit on capital is 20 per cent. The equilibrium price of the output of each of the three commodities—

1 Except in so far as “raw material from the land” entered into its composition. See Works, I, p. 117, and cf. IV, p. 20, footnote.
2 Ricardo also showed that a similar effect would be produced if the fixed capitals were of different “durations”. In edn. 2, as a result of a criticism by Torrens, he added the further case of a difference in the “durations” of the circulating capitals (see Works, I, pp. xiii and 60-1, footnote).
3 See Works, I, pp. 62-3.
equal to its cost of production, including profits at the average rate—will then be 120, as in the following table:

<table>
<thead>
<tr>
<th>Capital Fixed</th>
<th>Capital Circulating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit (20%)</td>
<td>Equilibrium Price</td>
</tr>
<tr>
<td>A. 0</td>
<td>100</td>
</tr>
<tr>
<td>B. 50</td>
<td>50</td>
</tr>
<tr>
<td>C. 80</td>
<td>20</td>
</tr>
</tbody>
</table>

Suppose now that wages increase by 10 per cent, and that there is a consequential fall in the rate of profit from 20 per cent. to 9\(\frac{1}{10}\) per cent. The situation will then be as follows:

<table>
<thead>
<tr>
<th>Capital Fixed</th>
<th>Capital Circulating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit (9(\frac{1}{10})%.)</td>
<td>Equilibrium Price</td>
</tr>
<tr>
<td>A. 0</td>
<td>110</td>
</tr>
<tr>
<td>B. 50</td>
<td>55</td>
</tr>
<tr>
<td>C. 80</td>
<td>22</td>
</tr>
</tbody>
</table>

It will be seen that none of the three commodities has risen in price; that each of the two commodities in the production of which fixed capital has been employed (B and C) has fallen in price; and that this fall is greater in the case of commodity C, where the proportion of fixed to circulating capital is greater.

The main moral which Ricardo drew from this analysis, in the first edition of the Principles, was that Adam Smith and the other

1 The figure of 9\(\frac{1}{10}\) per cent. has been selected so as to make the new equilibrium price of commodity A, in the production of which no fixed capital is employed, exactly the same as the old. This is in effect what Ricardo does in his own rather more ponderous example (see, e.g., I, p. 59). The procedure is not quite so arbitrary as it may appear at first sight. For Ricardo, in eds. 1 and 2 of the Principles, proceeded by "supposing money . . . to be always the produce of the same quantity of unsatisfied labour"—with the additional tacit assumption, as Mr. Sraffa puts it, that the period taken to produce and bring to market the monetary commodity (and all other commodities) was a year (I, p. xiii.). On this assumption, the prices of that class of commodities "where the advances consist solely in the payment of labour, and the returns come in exactly in the year" would not in fact change with a rise in wages; capital in the case of this class of commodities would necessarily lose precisely what labour gained; and the fall in the rate of profit in this branch of production would determine the fall in the general rate of profit. The main conclusion which Ricardo draws from his examples—that a rise in wages will cause a fall in the prices of all commodities in the production of which any fixed capital is employed—is obviously dependent upon this assumption. But the proposition that a rise in wages will cause the prices of commodities produced with a high proportion of fixed to circulating capital to fall relatively to the prices of those produced with a low proportion remains true whatever assumption is made about the conditions of production of the monetary commodity.


Prior to the publication of Mr. Sraffa’s edition of the Works and Correspondence, it was widely believed that Ricardo eventually came

1 Works, I, p. 63.
2 Ibid., VII, p. 377.
to realise that the labour theory of value was too shaky and unreliable to serve as a foundation for the imposing structure of distribution theory which he had erected upon it. His famous letter to McCulloch of 13 June 1820, in which he expressed some dissatisfaction with the theory,1 was almost invariably given prominence in histories of economic thought; and certain of the changes made in the second and third editions of the Principles were frequently adduced as evidence of a gradual "retreat" from the theory presented in the first edition. Mr. Sraffà, however, in his introduction to the Principles, comes to the conclusion that "an examination of the changes in the text in the light of the new evidence lends no support" to "the view of a retreat in Ricardo's position over successive editions". "The theory of edition 3", he writes, "appears to be the same, in essence and in emphasis, as that of edition 1."2 It is difficult not to be persuaded by the impressive evidence which Mr. Sraffà brings forward.3 There seems to be no doubt that, apart from the one lapse in his letter to McCulloch, Ricardo persisted to the end in his belief that "in fixing on the quantity of labour realised in commodities as the rule which governs their relative value we are in the right course".4 Economists may still argue, if they wish, that Ricardo was misled into false enquiries on the question of value. But what has always been one of the chief props of this argument—the notion that Ricardo himself eventually recognise that he had been misled—has been irretrievably knocked away.

The main alterations to the chapter on value in the third edition were connected with Ricardo's increasing preoccupation with the problem of defining an "invariable" measure of value. This was a problem to which Ricardo had already given some attention—although not a great deal—in the first and second editions. "If any one commodity could be found", he had there said,

1 Works, VIII, pp. 191-7. See particularly p. 194.
2 Ibid., I, p. xxxviii.
3 In only one place does Mr. Sraffà's argument seem unconvincing. A statement in eds. 1 and 2 to the effect that "in the early stages of society" the exchangeable value of freely reproducible commodities "depends solely upon the quantity of embodied labour was amended in edn. 3 by the replacement of "depends solely" "depends almost exclusively". Mr. Sraffà's explanation, which relates the amendment to the change in the choice of standard from eds. 1 to edn. 3, seems to me to be a shade too ingenious. Should not the amendment rather be related to Ricardo's recognition in 1820 (under the stimulus of a criticism by Malthus in the latter's Principles) that the cause which brings about the "considerable modification" to the law of value actually "operates in every stage of society"—i.e., not only in capitalist society, but also in those "early stages of society" to which Ricardo's statement specifically refers? See Works, I, pp. xxiv and 12, and II, p. 59.
4 Works, VIII, p. 344.

"which now and at all times required precisely the same quantity of labour to produce it, that commodity would be of an unvarying value, and would be eminently useful as a standard by which the variations of other things might be measured. Of such a commodity we have no knowledge, and consequently are unable to fix on any standard of value."5

If a commodity possessing this quality could in fact be found, Ricardo had said, we should be able to use it to ascertain, when two commodities which were produced with similarly constituted capitals varied in relative value, how much of the variation was to be attributed to a cause which affected the value of one and how much to a cause which affected the value of the other.6 In the case of these commodities, we should find that "the utmost limit to which they could permanently rise", when measured in terms of the "invariable" standard, would be "proportioned to the additional quantity of labour required for their production; and that unless more labour were required for their production, they could not rise in any degree whatever."7 But if the commodities were produced with capitals of different "proportions" and "durabilities", this would no longer be the case, and "the relative value of the commodities produced, would be altered in consequence of a rise in wages",8 even though this were unaccompanied by any change in the difficulty or facility of production. That was really as far as Ricardo specifically pursued the matter in the first and second editions of the Principles.

Malthus, in his own Principles (1820), criticised Ricardo for maintaining that a rise in wages would lower the prices of the great majority of commodities. It was true, Malthus agreed, that in cases where commodities were produced with a large quantity of fixed capital and where a long time elapsed before the returns came in, it was natural to suppose

"that the fall of price arising from a fall of profits should, in various degrees, more than counterbalance the rise of price which would naturally be occasioned by a rise in the price of labour; and consequently on the supposition of a rise in the money price of labour and a fall in the rate of profits, all these commodities will, in various degrees, naturally fall in price."9

5 Works, I, p. 17, footnote.
6 Ibid., I, pp. 29-30 and 56.
7 Ibid., I, p. 56. The paragraph from which this statement is quoted does not appear in edn. 2, but a paragraph of similar import is substituted for it.
8 Ibid., II, p. 62.
But in the case of that other “large class of commodities” where there was little or no fixed capital employed and the returns came in rapidly, it was by no means natural to suppose this, since the tendency for the price to fall would not “more than counterbalance” the tendency for it to rise. The prices of this class of commodities, therefore, would in fact rise with a rise in wages. On the borderline between these two classes there would be a third class, where “a rise or fall of wages is exactly compensated by a fall or rise of profits”—a line which Ricardo had placed, “at a venture, among those commodities where the advances consist solely in the payment of labour, and the returns come in exactly in the year”. 1 This third class, Malthus added, wherever the line be placed, “can embrace but a very small class of objects”, and “upon a rise in the price of labour, all the rest will either fall or rise in price, although exactly the same quantity of labour continues to be employed upon them.” 2

Ricardo was not impressed by the sting in the tail of Malthus’s analysis. “Mr. Malthus”, he said,

“shews that in fact the exchangeable value of commodities is not exactly proportioned to the labour which has been employed on them, which I not only admit now, but have never denied.” 3

But he was quite prepared to agree that Malthus was correct in saying that with a rise in wages some commodities would in fact rise in price. “I inadvertently admitted”, he confessed, “to consider the converse of my first proposition.” 4 And the idea that a class of commodities produced under certain conditions could be conceived as constituting a sort of borderline between commodities which would fall and commodities which would rise in price with a change in wages excited his interest. It was not long before he saw more clearly its relevance to the problem of the “invariable” measure of value. Soon after reading Malthus’s book it became apparent to Ricardo that his presentation of this problem in the first and second editions had been to some extent deficient, in that he had failed to take full and specific account of the “variety of circumstances” under which the “invariable” monetary medium might be supposed to be produced. “I have not been sufficiently explicit”, he wrote to McCulloch, in a letter discussing Malthus’s critique,

2 Works, II, p. 65.
3 Ibid., II, p. 66.
4 Ibid., II, p. 64.

“for I ought to have said that if the medium is produced under certain circumstances, there are many commodities which may rise in consequence of a rise in labour, altho’ there are many others which would fall, while a numerous portion would vary very little.” 5

From here it is only a short step to the idea that the degree of imperfection of an “invariable” measure of value can be reduced if we postulate not only that it should always require the same quantity of labour to produce it but also that it should be produced under circumstances which represent a sort of mean between the two extremes of high and low “proportions” and “durabilities” of capital. 6

Most of the major alterations in the third edition of the Principles are the result of Ricardo’s development of this idea. In the first place, there is a restatement of the doctrine relating to the effect upon relative prices of a change in wages:

“It appears, too, that in proportion to the durability of capital employed in any kind of production, the relative prices of those commodities on which such durable capital is employed, will vary inversely as wages; they will fall as wages rise, and rise as wages fall; and, on the contrary, those which are produced chiefly by labour with less fixed capital, or with fixed capital of a less durable character than the medium in which price is estimated, will rise as wages rise, and fall as wages fall.” 7

In spite of this amendment, of course, it still remained true that those who maintained that “a rise in the price of labour would be uniformly followed by a rise in the price of all commodities” were wrong, since in fact only some commodities would rise; 8 and it also remained true—a point which Ricardo seemed especially concerned to emphasise in the third edition—that “this cause of the variation of commodities is comparatively slight in its effects” when seen in relation to “the other great cause”, namely, “the increase or diminution in the quantity of labour necessary to produce them”. 9

In the second place, in the new section headed “On an invariable measure of value”, Ricardo makes an attempt to define the proper mean between the two extremes of high and low “proportions” and “durabilities” of capital. No measure can possibly be perfect,

3 Works, VIII, p. 186. Ricardo insisted, however, that “this is all implied in my book”.
5 Ibid., I, p. 43. There are a number of minor consequential amendments which it is not necessary to specify.
6 Ibid., I, p. 46.
7 Ibid., I, p. 36.
he argues, for even if we could find one which always required the same quantity of labour to produce it, it would still be "subject to relative variations from a rise or fall of wages, on account of the different proportions of fixed capital which might be necessary to produce it, and to produce those other commodities whose alteration of value we wished to ascertain". And, of course, differences in the durabilities, as well as the proportions, of capital might similarly affect the reliability of the measure. Thus a commodity always requiring the same quantity of labour to produce it "would be a perfect measure of value for all things produced under the same circumstances precisely as itself, but for no others". The best we can do, therefore, is to strike some sort of mean between the two extremes. Ricardo selects gold as his measure, suggesting that it may be considered as a commodity "produced with such proportions of the two kinds of capital as approach nearest to the average quantity employed in the production of most commodities". "May not these proportions", he asks, "be so nearly equally distant from the two extremes, the one where little fixed capital is used, the other where little labour is employed, as to form a just mean between them?" Some of the further implications of this analysis, and its development in Ricardo's thought after the publication of the third edition of the Principles, will be considered in the next section.

5. The Final Stage: The Development of the Concept of Absolute Value

The discovery of the papers on Absolute Value and Exchangeable Value, upon which Ricardo was working during the last weeks of his life, has given a new interest and importance to the question of the development of his ideas on value after the appearance of the third edition of the Principles. In particular, it has become possible to detect the emergence of a new trend in his thought—a trend which developed out of his increasing concern with the problem of the relationship between "relative" (or "exchangeable") value and "absolute" value.

"The inquiry to which I wish to draw the reader's attention", said Ricardo in the Principles, "relates to the effect of the variations in the relative value of commodities, and not in their absolute value."  

The formal rationale of the concept of absolute value, as we have seen, lies in the assumption that a change in the relative values of two commodities can be usefully regarded as the net resultant of a change which has taken place in the "absolute" (or "real") value of one or both of them considered individually. The "absolute" value of a commodity, in the broad sense, is in fact its value as measured by an "invariable" standard.

The difficulties inherent in the problem of measuring absolute value begin to become evident only when we recognise that commodities (including the commodity used as a standard) are actually subject to fluctuations in relative value, not only from a change in the quantity of labour required to produce them, but also from "a rise of wages, and consequent fall of profits, if the fixed capitals employed be either of unequal value, or of unequal duration". Under these circumstances, how can the absolute value of a commodity be measured? Or, to put the same question in another way, what qualities must a measure possess in order to be "perfect" or "invariable"? I have already noted the solution to this problem which Ricardo propounded in the third edition of the Principles. In his final paper, following up a suggestion he had made to McCulloch to the effect that all the exceptions to the general rule that the value of a commodity depended upon embodied labour could be conceived of in terms of differences in the time taken to produce the commodity and to bring it to market, Ricardo decided that the "just mean" was represented by "a commodity produced by labour employed for a year". This, he asserted, was "a mean between the extremes of commodities produced on one side by labour and advances for much more a year, and on the other by labour employed for a day only without any advances". The fact that this measure was "produced in the same length of time as corn and most other vegetable food which forms by far the most valuable article of daily consumption", said Ricardo, would decide him "in giving it a preference".

According to Ricardo's way of looking at the problem, as we have seen, a measure of absolute value was only perfect—i.e., perfectly invariable—if it always required the same quantity of labour to produce it and if the constitution and durability of the capital required to produce it were the same as that of the capital required to produce
the commodity being measured. The measure which Ricardo finally arrived at was selected precisely because it appeared to deviate from this standard of perfection less than any other possible measure. Now, if the measure were perfect in this sense, it is evident that no commodity estimated in it could possibly vary in value unless there were a change in the quantity of labour required to produce it. The measure would not reflect the effect of a change in wages at all. This concept of a perfect measure of absolute value which would act as a sort of sieve, allowing through the mesh the effects produced by a change in wages and retaining only those produced by a change in the quantity of embodied labour, appealed strongly to Ricardo, and remained the pivot of his thought on the value problem until the end of his life.

Why should Ricardo have selected and so stubbornly defended this particular criterion of the perfection of a measure of absolute value? One reason which weighed with him, perhaps, was the convenience (in relation to the central problem of distribution) of a measure which did not reflect the effect of changes in wages, since, as Mr. Sraffa says, "if a rise or fall of wages by itself brought about a change in the magnitude of the social product, it would be hard to determine accurately the effect on profits". But rather more important than this, I think, was the fact that at the back of Ricardo's mind there always lurked the idea that there was something unique and fundamental about the role which human labour played in the process of value-creation—so unique and fundamental, indeed, that it simply made no sense to speak of a commodity as "varying in absolute value" if no more or no less labour was required to produce it. In his final paper on value this idea was given classic expression. "To me it appears a contradiction," Ricardo wrote, "to say a thing has increased in natural value while it continues to be produced under precisely the same circumstances as before."

It is Ricardo's increasing tendency to identify the absolute value of a commodity with the quantity of labour embodied in it which represents that new trend in his thought of which I spoke at the beginning of this section. Even in the new material incorporated in the third edition of the Principles there are signs of this trend, particularly in the chapter on Value and Riches. Take, for example, the following passage:

2 Ibid., IV, p. 375. "Natural" is obviously used here as a synonym for "absolute".

"A franc is not a measure of value for any thing, but for a quantity of the same metal of which francs are made, unless francs, and the thing to be measured, can be referred to some other measure which is common to both. This, I think, they can be, for they are both the result of labour; and, therefore, labour is a common measure, by which their real as well as their relative value may be estimated. This also, I am happy to say, appears to be M. Destutt de Tracy's opinion. He says, 'as is certain that our physical and moral faculties are alone our original riches, the employment of those faculties, labour of some kind, is our only original treasure, and that it is always from this employment, that all those things are created which we call riches, those which are the most necessary, as well as those which are the most purely agreeable. It is certain too, that all those things only represent the labour which has created them, and if they have a value, or even two distinct values, they can only derive them from that labour from which they emanate.'"

A month or two after the appearance of the third edition, we find Ricardo explaining to Trower:

"I do not, I think, say that the labour expended on a commodity is a measure of its exchangeable value, but of its positive value. I then add that exchangeable value is regulated by positive value, and therefore is regulated by the quantity of labour expended.

"You say if there were no exchange of commodities they could have no value, and I agree with you, if you mean exchangeable value, but if I am obliged to devote one month's labour to make me a coat, and only one week's labour to make a hat, although I should never exchange either of them, the coat would be four times the value of the hat; and if a robber were to break into my house and take part of my property, I would rather that he took three hats than one coat."

In his next letter to Trower he writes similarly:

"In speaking of exchangeable value you have not any idea of real value in your mind—I invariably have. . . . The fault lies not in the doctrine itself, but in my faulty manner of explaining it. The exchangeable value of a commodity cannot alter, I say, unless either its real value, or the real value of the things it is exchanged for alter. This cannot be disputed. If a coat would purchase 4 hats and will afterwards purchase 5, I admit that both the coat and the hats have varied in exchangeable value, but they have done so in consequence of one or other of them varying in real value."

1 Works, I, pp. 284-5. 2 Ibid., IX, p. 2. 3 Ibid., IX, p. 38.
And another interesting formulation of the same idea appears in a letter to Malthus written about a month later:

"Nothing is to me so little important as the fall and rise of commodities in money, the great enquiries on which to fix our attention are the rise or fall of corn, labour, and commodities in real value, that is to say the increase or diminution of the quantity of labour necessary to raise corn, and to manufacture commodities. It may be curious to develop the effect of an alteration of real value on money price, but mankind are only really interested in making labour productive, in the enjoyment of abundance, and in a good distribution of the produce obtained by capital and industry. I cannot help thinking that in your speculations you suppose these much too closely connected with money price."1

Here are two further passages in which the quantity of labour worked up in a commodity is virtually identified with its absolute value. The first is from the pamphlet On Protection to Agriculture, which appeared in April 1822, and the second from a letter to Malthus of August 1823:

"When I use the term—a low value of corn, I wish to be clearly understood. I consider the value of corn to be low, when a large quantity is the result of a moderate quantity of labour. In proportion, as for a given quantity of labour a smaller quantity of corn is obtained, corn will rise in value."2

"I estimate value by the quantity of labour worked up in a commodity. . . . The difference between us is this, you say a commodity is dear because it will command a great quantity of labour, I say it is only dear when a great quantity has been bestowed on its production."3

And Ricardo's increasing concern with this aspect of the problem was accompanied by a growing sharpness in his opposition to the views of those who put forward different theories of value—notably Say with his utility theory, and Malthus with his commandable labour measure and his superficial "supply and demand" approach—and also by a growing impatience with the highly scholastic attempts of his own disciples to explain away the difficulties associated with the labour theory.4 In the final papers on Absolute Value and Exchangeable Value all these different strands of thought are gathered together.

The idea I have been describing underlies a great deal of the argument of these final papers. It underlies, for example, the following criticism by Ricardo of Malthus's commandable labour measure:

"In Mr. Malthus's measure provided the labourer were always paid the same quantity of corn for his labour the value would always be the same although to obtain this same quantity double the expenditure of labour and capital might be necessary at one time to what was necessary at another. If by improvements in husbandry corn could be produced with half the expenditure of labour and capital it would by Mr. M be said to be unaltered in value provided the same quantity and no more was given to the labourer as wages. It is indeed acknowledged by Mr. Malthus, and how could it be denied? that under such circumstances corn would fall very considerably in money price—it would fall also in the same degree in exchangeable value with all other things, but still Mr. M says it would not fall in absolute value, because it did not vary in his measure of value. On the contrary all these things as well as money would under the circumstances supposed vary in this measure and therefore he would say they had all risen considerably in value. He would say so altho' with respect to any one or more of them great improvements may have been made in the means of producing them by the application of machinery, or from any other cause which should render it cheap in price and lower in exchangeable value with regard to all things corn and labour excepted. In Mr. Ricardo's measure every thing to which such improvements were applied would fall in value[,] and price and value would be synonymous while gold the standard of money cost the same expenditure of capital and labour to produce it."5

It underlies, too, Ricardo's main criticism of Torrens's idea that in modern times value is determined by the quantity of capital required to produce commodities rather than by the quantity of labour:

"A yard of cloth may be worth 5 loaves of sugar. The difficulty of producing cloth and sugar may be increased two fold, or it may be doubly easy to produce them both, in neither of these cases will the relative value of these two commodities alter, a yard of cloth will be still worth 5 loaves of sugar, and because their relative value has not altered Col. Torrens would lead you to infer that their real value has not altered—I say their real value has certainly altered, in one case they have both, the yard of cloth and the 5 loaves of sugar, become less valuable, in the other they have both become more valuable."6

1 Works, IX, p. 83. Cf. p. 100: "Too much importance is attached to money—facility of production is the great and interesting point."
2 Ibid., IV, p. 235.
3 Ibid., IX, p. 348.
4 Ibid., IX, passim.
And in one place the idea is stated specifically, with greater clarity than ever before in Ricardo’s writings:

“I may be asked what I mean by the word 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. Every thing is originally purchased by labour—nothing that has value can be produced without it, and therefore if a commodity such as cloth required the labour of ten men for a year to produce it at one time, and only requires the labour of five for the same time to produce it at another it will be twice as cheap. Or if the labour of ten men should be still required to produce the same quantity of cloth but for 6 months instead of twelve cloth would fall in value.

“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 commodities are the produce of labour and would have no value but for the labour expended upon them.”

6. The Place of Ricardo in the History of the Labour Theory

Ricardo, as we have seen, began his researches into the value problem on the basis of the familiar Classical idea that when a commodity was sold at its cost of production (including profit on capital at the average rate) it was being sold “at its value”. Its cost of production, or “natural price”, was conceived as the monetary expression of its value. Ricardo argued that “the relative cost of production of two commodities”—i.e., the ratio in which they would normally exchange for one another on the market—was “nearly in proportion to the quantity of labour from first to last respectively bestowed upon them”. It was “nearly”, and not exactly, in proportion, of course, because there would necessarily be a difference between cost of production ratios and embodied labour ratios in the case of commodities produced with differently constituted capitals.

In the Principles, Ricardo was primarily concerned, as he put it himself, with “the effect of the variations in the relative value of commodities, and not in their absolute value.” It is difficult to make statements about the one without at the same time implicitly making statements about the other. It is especially difficult when the problem of a theory of value and that of an “invariable” measure or standard of value are as closely related in one’s mind as they were in Ricardo’s. “It is... of considerable use towards attaining a correct theory”, wrote Ricardo, “to ascertain what the essential qualities of a standard are, that we may know the causes of the variation in the relative value of commodities, and that we may be enabled to calculate the degree in which they are likely to operate.” The problem of defining the qualities of an “invariable” measure of value, which occupied so much of his attention after the publication of the second edition of the Principles, was not really a new problem: in essence, Ricardo was still concerning himself with the question of the validity of the simple theory of value which he had announced in the first section of the first edition of the Principles in 1817.

Nevertheless, the concept of absolute value was much more fully developed in the later period; and, as I have shown above, the tendency to identify absolute value with embodied labour became more and more apparent. No doubt it was always present to some extent: one can scarcely talk about embodied labour as the “source” and “foundation” of value, and as being “realised” in commodities, without at the same time tending to regard value as virtually consisting of embodied labour. But it was only in the last phase that this idea was clearly and consciously stated and emphasised. In emphasising it, Ricardo was no doubt trying to give coherent expression to his more or less instinctive feeling that “in fixing on the quantity of labour realised in commodities as the rule which governs their relative value we are in the right course”. If “the power of producing value” were really attributable to “the labour of man alone”; if it were true that “all commodities are the produce of labour and would have no value but for the labour expended upon them”; and if therefore the labour embodied in commodities constituted the very substance of their value—then it could hardly be doubted that we were “in the right course” in seeking to link exchange ratios to embodied labour ratios. Embodied labour ratios, it appeared, ought to be the

1 Works, IV, p. 397.  
2 Ibid., II, p. 35.  
4 Ibid., VIII, p. 344.  
5 Ibid., I, p. 285.  
6 Ibid., IV, p. 397.

See, e.g., ibid., I, p. 47, footnote.

See, e.g., ibid., I, p. 73, where all these three expressions are used.

Cit. Scaife in ibid., I, p. xlvii.
sole regulators of exchange ratios; and if they proved upon examination not to be so, then this was a "contradiction" which had somehow to be solved. And if the "contradiction" turned out to be very difficult to solve, this was not to be taken as an indication of the inadequacy of the basic doctrine, but rather as an indication of "the inadequacy of him who has attempted to explain it".8

The question of Ricardo's place in the history of the labour theory may perhaps be considered, first, in relation to the advance which he made beyond Smith's version of the theory, and, second, in relation to the extent to which he cleared the path for Marx. Ricardo, as we have seen, begins in the Principles with the assumption that the determination of value by labour time is the necessary starting-point for a proper understanding of the anatomy of capitalist society, and then proceeds to enquire whether the other economic relations or categories conflict with this definition of value, or how far they modify it.9 This mode of approach represented a considerable advance over that of Smith, whose accounts of what Marx called "the hidden structure of the bourgeois economic system" on the one hand, and of "the living forms in which this inner physiology manifests itself outwardly",4 had proceeded more or less independently, often contradicting one another and not being causally connected in anything like a satisfactory manner. "At last, however", as Marx puts it,

"Ricardo comes on the stage, and calls to science: Halt!—The foundation, the starting point for the physiology of the bourgeois system—for the understanding of its internal organic coherence and life process—is the determination of value by labour time. Ricardo starts with this, and compels science to leave its old beaten track and render an account of how far the rest of the categories it has developed and described—the relations of production and commerce—correspond to or conflict with this foundation, with the starting point; how far in general the science that merely reflects and reproduces the phenomenal forms of the process—how far therefore also these phenomena themselves—correspond to the foundation on which the inner connections, the real physiology of bourgeois society, rests, or which forms its starting point; and what in general is the position with regard to this contradiction between the apparent and the actual movement of the system. This is therefore the great historical significance of Ricardo for the science."

But Ricardo's mode of approach in the Principles, according to Marx, although historically justified, was still scientifically inadequate, because "it skips necessary intermediate links and tries to establish direct proof of the consistency of economic categories with each other".8 In particular, by his initial identification of "value" with cost of production, Ricardo in effect postulates the existence not only of commodities as such ("and nothing else has to be postulated"), says Marx, "in considering value as such"), but also of "wages, capital, profit, and even the general rate of profit itself".9 Thus Ricardo really begins by taking it for granted that in the case of commodities produced with the aid of differently constituted capitals "value" ratios will diverge from embodied labour ratios in a quantitatively indeterminate manner. Since they must necessarily diverge in this manner, there is in Ricardo's opinion little that can be done about it, except to admit that the original law requires a certain amount of "modification", and to seek for an "invariable" measure of value which will as far as possible show commodities as varying in value only when there is a change in the quantity of labour required to produce them.

Ricardo's criterion of the "perfection" of an "invariable" measure, as I have tried to point out above, was in large part a reflection of his deep-rooted feeling that in spite of all appearances to the contrary embodied labour did in some significant sense constitute and regulate the "value" of a commodity. The fact that embodied labour ratios were not in normal cases strictly proportionate to exchange ratios appeared to Ricardo as a "contradiction"—a contradiction which he himself was unable to solve. Fundamentally, his failure to solve it was due to the fact (already indicated above) that "at a point when he was only as yet concerned in explaining value, and was therefore as yet only dealing with the commodity, he suddenly bursts in with the general rate of profit and all the conditions which arise from the higher development of capitalist productive relations".4 Instead of assuming the general rate of profit in advance, Marx argues,

"Ricardo should rather have investigated how far its existence is in any way consistent with the determination of value by labour time; and he would then have found that instead of being consistent

1 "Ought", of course, only in the sense that this conclusion seemed to follow logically from the premises.
2 Works, VIII, p. 142.
3 Marx, Theory of Surplus Value, p. 201.
5 Ibid., p. 205.
6 Ibid., p. 351.
7 Theory of Surplus Value, p. 203.
with it, *prima facie* it contradicts it, and its existence has therefore to be explained through a number of intermediary stages—an explanation which is something very different from merely including it under the law of value."\(^1\)

In Marx's opinion, then, it is only if the problem of the "contradiction" is posed in terms of the *derivation* of equilibrium prices from labour-determined "values" that it can be adequately solved. Ricardo, "instead of deriving the difference between production prices [i.e., equilibrium prices] and values from the determination of value itself, admits that values are themselves determined by influences independent of labour time". Here, Marx adds, "would have been the place for him to define the concept of 'absolute' or 'real' value, or 'value' as such".\(^2\) Marx was not of course aware of the increasing emphasis which Ricardo in fact laid on "the concept of 'absolute' or 'real' value" in the last years of his life, nor of his increasing tendency to identify absolute value with embodied labour. Had Marx known of this he would probably have regarded it as an important step in the direction of the correct solution of the "contradiction". Certainly most of the essential ingredients of the Marxian solution—including the quite indispensable idea that profits depend upon the "proportion of the annual labour of the country [which] is devoted to the support of the labourers"\(^3\)—were ready to hand in Ricardo's work by the time he died. The important quality which was lacking in Ricardo, but abundantly present in Marx, was a proper appreciation of the fact that problems of economic theory, even in such abstruse spheres as that of value, were not only problems of logic but also problems of history.

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\(^1\) *Theory of Surplus Value*, p. 212.  
\(^3\) *Ricardo, Works*, I, p. 49.  
\(^4\) And even including—in a deleted passage (IV, p. 312)—a distinction very close in substance to that later made by Marx between constant and variable capital.